

The Hunted keeps on Hunting

*Consors grew quickly - they'll have to grow even more.
Otherwise the discount broker will be a victim of their self-initiated reorganisation in
the banking sektor.*

Consors advertisements can be seen everywhere at the moment. In many papers and magazines you find two famous Germans checking their portfolios via laptops wherever they are. The biggest ad campaign of a discount broker ever is a huge success. Although it has Uli Hoeneß in it, who is probably the biggest bogeyman Germany has to offer at the moment, the campaign has made having an account at consors not only interesting but stylish.

So what made a former student become the CEO of Germany's fifth biggest bank (considering market capitalisation) within only six years? How could he redefine the banking business so deeply and so fast? And how on earth could he convey private customers having an account at consors as being trendy?

In the beginning there was no vision or plan, there was anger. Anger that banks charged high fees for private customers who wanted to trade stocks. The average cost of a trade in 1994 was about three percent of the trade volume. One percent for the bank when buying, one when selling and close to an additional percent for several other fees. For Karl Matthäus Schmidt, son of the "Schmidt Bank" CEO, this was too much and he wanted to give non-institutional customers a chance to trade at lower prices. He discussed his idea with friends at the weekly meetings of the investment-club of Nürnberg-Erlangen's University, where he was studying economics. The result was Consors (lat. associate), today recognised as the top discount-broker in Germany.

Schmidt started his business with five men and four computers and two million German marks in venture capital (sponsored by his dad) in 1994. Soon the first order came in and Consors was in business. No one could then foresee, that this was the beginning of a structural change in the banking world, cutting bank margins in the highly profitable sektor of stock-broking up to 90 percent. A development which banks today would like to forget and make undone. Six years ago, however, the big banks did not recognize discount brokers and laughed at them. A fatal mistake as time would show. They all did not notice that especially money, stocks, funds and futures could be traded perfectly over the internet. These goods were immaterial, therefore didn't need physical delivery and had to be traded fast. Today those banks who misjudged the development have to catch up, paying a high price for their mistake. In addition to that, traditional banks have to cut their margins dramatically in order to participate in the online banking business. This "canibalisation" as it is called in economic terms has weekend former well positioned banks and catapulted Consors into the game of serious banking.

As a consequence of incredible growth and in order to grow even faster Consors went public to become Germany's fifth biggest bank. Now there was no way for established banks to stop the "troublemaker". Direct-broking was widely known and after being

listed on the stock exchange the spoil-sport could not just be bought because the Schmidt family owns 70 percent of the stocks. Banks therefore had to react and reposition themselves within the new market. Soon every traditional bank opened a direct-broker to keep clients who were willing to trade over the internet for lower prices at least within the conglomerate. Comdirect, Bank24 and DAB, just naming a few, were struggling to catch up with Consors but did well. Consors suddenly wasn't alone anymore and had a number of serious competitors. Today Comdirect, owned mostly by the Commerzbank, has 50,000 customers more and is widely seen as the main rival.

Innovations, however, always came from Nürnberg where Consors is still based today. Schmidt offered to trade "inter-day" first, even knowing that this kind of business would bring a lot of legal problems and could be seen as a form of gambling. Secondly Schmidt was first to restructure his company as an European direct-broker, now being active in Italy, Spain, France Switzerland and soon in Great Britain.

Growth at this speed was challenging and called for a different company structure than Consors had six years ago. Today the direct-broker has over a thousand employees and every month new employees enlarge the number. Times in which Schmidt shook hands with everyone in the morning or paid higher wages voluntarily are over. "Wage-dumping" as Uwe Foullong, a unionist of Handel, Banken and Versicherungen (HBV) calls it, is a result of tight margins and the neverending chase for profitability. Employees in traditional banks are paid 25 Marks per hour, a hotline assistant in a call-center only 17. Only one direkt broker, the Diba, has a wage agreement. HBV regrets the decision cutting the wages but has failed to set up a workers council to gain more influence in the company. Schmidt is of the opinion that a workers' council does not fit into the modern structure of his company but has introduced a so called "senate" in which the ideas of his employees are represented. The senate is supposed to think entrepreneurial and can only function as a consultant. Difficult decisions can not be blocked like a workers council would be able to. This freedom helps the management at Consors keeping on expanding at this pace.

In April this year Schmidt was joined by Reto Francioni, former vice CEO of the Frankfurter stock exchange who introduced the "Neuer Markt" and made it the most popular segment in the history of European stock exchanges. Together they plan on internationalising Consors and the conquering parts of the still high profitable Investment Banking. This sector is up to now the only leftover business where extraordinary high fees are still paid. Traditional banks are highly alerted by this development, but try to seem not to be too concerned. Certainly they will keep an eye on every move the new Consors Capital Bank will make in order to keep them from missing a new development as they did six years ago.

The question now is what will be next for Consors? Francioni gave the answer in a Financial Times Interview: "E-finance is more than just online-brokerage". Time will show what he exactly meant.