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Where Are You In Your Bank's List Of Priorities?

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Many years ago, I learned something that shaped my life. I was used to living in the USA where we *expect* certain standards of quality, ethics and manners as universal. But while living in South America and traveling in Asia, I had to learn a whole different approach to everything – what I bought and used; who were friendly, reliable experts on the local scene, and what I should trust.



JP Gough

In some circumstances, what I bought could make me sick or even prove deadly – such as food – in environments where Americans would not even think of the possibility of a threat. But in most instances, the variances in standards of quality were not threatening; just very annoying. For instance, I learned quickly how to assess quality of clothing.

So for some things, like shirts and pants, I learned to buy one or even two sizes too big, then wash them several times before they became the size I actually wanted. Of course, that process may work on the size, but many times I ended up with misshapen clothes.

But standards have their own defects ...of sorts. Standards often fool nearly everyone into thinking that everything is a commodity. If everything is the same – they are identical and interchangeable (what economists call “fungible”) – the only thing that matters is price, *right?* Maybe.....

Some commodities we readily accept as fungible, such as electricity and petroleum. No one seems to know or care where their electricity or gas comes from – just so long as it keeps coming. But perceptions have changed for a number of other fungible commodities, such as bottled water. I am old enough to still remember the derision that early ‘water pioneers’ received when ordering expensive, imported water.

In a country where we “poll” public opinion *about everything*, it is no wonder that there have been a few to rate the worst among perceived commodity products. It is interesting that after the #1 complaint (used cars), the second worst rating

went to banks. That more general rating actually fits with bank-industry surveys showing that customer unhappiness has doubled from a historical norm of about 25% up to 57%.

I find it interesting that the 10-worst rated products and services were in fact all ones viewed by the public as “commodities” – where the only thing that matters in the upfront purchase decision seems to be price. I suspect that embedded in “buy” decisions for any commodity, is an assumption: that what *you* are buying matches what *they* are selling.

But if commodities really are all about price, then there should be no Nordstroms once TJ Max comes to town. Clothes are a commodity, but the public seems to accept that the service of these two organizations differentiates them. Why not with used cars and banking?

The automotive and banking industries are two of the most heavily regulated and “standardized” in the world. So everyone jumps to the conclusion that autos and banks have all been turned into commodities by the government.

But is it possible that a used car or even banking services can have differentiating characteristics, just as different bottled waters or Nordstroms and TJ Max? After all, just how different can khaki pants be? Ask any Nordstroms’ loyalist why they go there – you’ll hear about the impeccable, personalized service and the guarantee (‘we’ll fix your problem fast’). Mmh. Sounds like differences in banking to me!

Stranger in a Strange Land

No matter how bad the situation is for us, no matter how much pain is involved, we resist making a decision that involves a change in our lives and our relationships. Through evolution, mankind has come to see change as dangerous if not unpleasant. Most people do not approach change – even getting out of an ugly situation – with optimism, never mind excitement. Which brings us to a recent, but common episode.

After experiencing pain at his current bank, a prospective client agreed to a meeting over lunch. 'Jon' runs a family-owned business with current sales of about \$34 million which his grandfather started.

When he compared his existing bank's pricing structure to ours, he was shocked. Jon discovered that his current big-bank actually charged more than we did – despite the fact that the big bank's *stated* interest rate was lower than ours – because of the big bank's numerous additional charges. He liked our simplified approach to pricing – but graciously pointed out at how we hurt our own marketing effort by not following the big bank's game plan. At this point, I got to talk about our culture and that we equate straightforwardness with integrity.

But Jon still had one problem – he actually stated his belief that his family's 40-year relationship with the behemoth bank was not something to lightly walk away from. Even with operational hassles and a basic lack of responsiveness at the big bank, Jon was under the illusion that his big bank and he had a *relationship*. In response to that, I asked for his patience so I could share some data about his big bank, which we'll call "Behemoth Bank" ("BB" for short).

BB is about \$1.5 trillion in size [that number is not easy for Americans to grasp, so look at this: \$1,500,000,000,000.]. BB has 47 million customers, more or less, with only 150,000 employees. The top 1,000 clients have average deposits of about \$250 million. BB would love to lose the bottom 5 million customers (but that would be a public relations disaster to pull off).

So we had the following dialogue.

Me: *How many people are reasonable for anyone to "know" or "care about"?*

Jon: *Maybe 150 including family; 200 max if you're working it hard.*

Me: *So based on your analysis, the Chairman of BB can't even know most of the clients who keep \$250 million in his bank?*

Jon: *I guess that would have to be about right.*

Me: *With 150,000 employees, how many do you think the Chairman of BB knows or cares about?*

Jon: *Not very many.*

Me: *If BB allocated their customers among every employee – from Chairman and President to teller and janitor – it would be 300+ customers per person. How well can loan officers at BB know their clients if they have 250-500 of them to follow-up and support?*

Jon: *The clients would be strangers.*

Me: *How many people do you know who put themselves out for strangers?*

Jon: *Maybe one.*

Me: *How about your loan officer at BB?*

Jon: *Not a chance.*

Me: *So Jon, between the top 1,000 best clients (with deposits 9-times the size of your annual sales) and the bottom 5 million (whom BB wants to get rid of), where are you in your bank's list of priorities?*

Community Bankers – Reliable Experts on the Local Scene

As we talked, Jon realized that having his own banker could make a meaningful difference. And at some point in time, every business owner needs a banker's wisdom and help to do some things out of the ordinary. He had never before thought about using his banker for more than remedial needs. But just as with accountants, lawyers, insurance advisors and investment advisors, the community banker is a key local expert to have on a business owner's team.

Community bankers are experts in banking who also have greater decision-making latitude, quicker responsiveness and deal in a more straightforward fashion. The political pressures and specializations within big banks work against relationships – even for those in the Top 1000. The economics of banking and centralization of decision-making at the big bank level work against the service quality inherent in community banking.

People want to be community bankers because they are drawn to relationships *naturally*. And because of that natural attraction to this career, community banks tend to commit themselves and their organizations to serving the best interests of each client. Individual community bankers are not handling client portfolio loads of 250-500 clients to support a vast infrastructure.

So next time you journey as a stranger through the strange land of hunting for a bank relationship, just remember to look for the friendly, reliable expert on the local scene – a community banker.

With your community banker helping you, you won't have to worry about buying services one or two sizes too big – or shrinking the bank's programs and products – to get a good fit. Customization comes naturally to community banking.

And with your community banker running interference and lowering the speed bumps for you in banking and other areas, you won't have to think about your organization – *or you* – becoming misshapen by your banking experience.

Because, much like Nordstroms, community banks only exist because of their impeccable, personalized service and quality guarantees (we'll fix the problem – fast!). Just ask any community bank loyalist [who probably shops at Nordstroms too].

For about the same costs, community bank clients get so much more. They are not lost in the huge numbers of millions of clients. Clients get the right size that fits immediately, with nothing to shrink down to their size. And client assumptions tend to match those of the community banks – where all the clients are on the list of priorities.

So, where are you in your bank's list of priorities?