# Strategies to Win

## Capitalizing on Your Competitive Advantages

*by Sean Payant, Chief Consulting Officer, Haberfeld*

In our ever changing industry, many community bankers fall into the trap of trying to grow market share by following the lead of the "big banks." And many of them are finding it just doesn't work. Customers continue to flee from banks that focus on regular service charges and complicated products. Ask yourself, "As a consumer, would you think your pricing structure was fair?" As bankers we need to look through the lens of the customer.

Bank of America announced in January 2018 they were once again complicating their checking offerings for a segment of customers. While some accounts were grandfathered, others were moved to a basic account for a $12 monthly fee unless the customer maintains a $1,500 balance or has at least one $250 direct deposit.

The number one reason consumers switch banks is because of service failures which often mask themselves as unexplained nuisance charges or fees. Numerous studies published by The Financial Brand consistently show consumers hate monthly service charges, minimum balance requirements and confusing products and services with too many variables and too many "requirements" to follow.

In an increasingly competitive market place, community bankers need to focus on customer perceptions in order to leverage their competitive advantages. In any given market most community financial institutions believe their biggest competitors are the big banks. So let's compare your institution to one of the top four. Since customer perception is reality, we will have to draw some conclusions on what customers are likely to believe.

• **Location:** The number one reason customers choose a bank is based on location. The average community bank in the United States has six branches. Bank of America currently has more than 5,000 locations and announced in February 2018 they are opening 500 more. This is a huge advantage given that location or convenience remains a primary reason for selecting a financial institution.

• **Marketing Dollars Available:** In 2017 Wells Fargo budgeted $593 million for marketing. The average community bank spends less than $600,000 per year. Spent wisely community banks can grow their customer base and double account openings.

• **Product Offering:** Perception is reality. If you took a random survey of people on the street and asked them: "Which bank offers the most products and services – Bank of America or your bank?" Most people would answer Bank of America based on perception. The reality is most community financial institutions offer nearly everything the majority of consumers and businesses need. With that said, community banks cannot and should not try and copy the big banks to match their products. Since you don't have the most locations, it is imperative you have a more compelling offer.

• **Pricing on Deposits:** Based on perception most people assume one of the big banks pays the best. The reality is almost every one of our clients across the U.S. pays higher rates on deposits than the big banks.

• **Too Big to Fail:** During the financial crisis the government stepped in to prevent big banks from failing. Yet from 2009-2014 numerous community banks were closed on a regular basis. This causes consumers to pause. Who do you think they perceive as more stable?

• **Customer Service Culture:** All things considered, who has the ability to most fully know their customers and serve them and their business needs –Bank of America or your bank? This is an area in which community banks can win hands down; however, community banks rarely make this a priority. Frankly, it has been my experience that most community banks give "lip service" to customer service.

• **Capitalizing on Your Competitive Advantages:** Clearly big banks have a few distinct competitive advantages and a number of perceived ones. Unlike community banks they also have a much higher cost structure and are less nimble. Because community banks operate on a very different business model, they can offer more personalized services, lower fees and compelling products. Pricing and service still matter.

Up to 15% of consumers change financial institutions in any given market in any given year. It is difficult to get people to switch banks. People switch banks for a variety of reasons but it is generally event driven. The goal is to get people to choose your institution when they are ready to change.

Being top of mind when people are ready to switch is key. Since convenience is the primary selection criteria for customers, you should be focusing your marketing on the proximity of your branches for new retail and business customers in your specific market area. Once you've attracted those customers, you can use service as a differentiator to maximize your share of wallet through added relationships and a strategic approach to cross-selling additional products and services.

Should you follow the big banks lead and start charging fees? If you start charging for checking accounts, you will ultimately drive good customers to banks with more locations and all of the other perceived advantages discussed above. The best way for a community bank to make up the lost fee income is to grow their customer base. Nearly every community bank branch in the United States has excess capacity. They could double their customer base and still not need to add staff. The key to growing customers is to lead with products that are good for customers, simple and logical, easy to sell and easier to buy, and yes, that makes money for your bank.

Community banks that follow the lead of the big banks will lose! The big institutions have too many advantages – some real and some perceived. Community bankers need to differentiate by leading instead of following.

*Sean C. Payant, Ph.D., is Chief Consulting Officer at Haberfeld, a data-driven consulting firm specializing in core relationships and profitability growth for community-based financial institutions. Sean can be reached at 402.323-3614 or Sean@haberfeld.com*