Leveling the Playing Field

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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." 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 I think our institution's pricing structure is fair?" As bankers, we need to look through the lens of the customer.

The number one reason consumers switch banks is because of service failures, often in the form of 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 that come with too many variables and requirements.

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

- **Locations:** For customers choosing a new institution, the biggest factor is still location. The average community bank in the United States has six branches, whereas Wells Fargo currently has more than 4,600 locations in the United States. While some FIs are trimming their footprints, TD recently announced plans to open 150 branches by 2027. Further, in a recent article, Chase defended its branch strategy as a deposit-gathering machine. Given that location or convenience remains a primary reason for selecting a financial institution, community institutions leaning into the branch strategy will have a huge advantage.

- **Marketing Dollars Available:** In 2021, Wells Fargo budgeted $600 million for marketing. The average community bank spends less than $600,000 per year. Spent wisely, that budget can help community banks grow their customer base and double account openings.

- **Product Offerings:** Perception is reality. Suppose you took a random survey of people on the street, asking 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 required by the majority of consumers and businesses. That said, community banks cannot and should not try to copy the big banks or 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, many people may assume that one of the big banks pays the best. In reality, every one of our clients across the United States pays higher rates on deposits than the big banks.

- **Too Big to Fail:** In 2023, the collapse of Silicon Valley Bank and Signature Bank sent the markets into turmoil. Uncertainty causes consumers to pause and question the stability of the banking industry as a whole. Which institution do they think is "too big to fail," Wells Fargo or your community bank?

- **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

It's clear that 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 more compelling products. Pricing and service still matter.

Approximately 10% of consumers change financial institutions in any given market in any given year. It is very difficult to persuade people to switch banks. When they do switch, they do so for a variety of reasons, but it is generally event driven. The goal then 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 criterion for customers, you should be focusing your marketing on the proximity of your branches to prospective retail and business customers in your 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 away to other banks with more locations and all the other perceived advantages discussed above.

The best way for a community bank to grow fee income and reduce cost of funding is to grow its customer base. Nearly every community bank branch in the United States has excess capacity, meaning they could double their customer bases and still not need to add staff. And, the key to growing customers is to lead with products that are good for customers. Products that are simple and logical, easy to sell and even easier to buy, and—yes—that make 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.

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