ISSUES : STRATEGY

The Traditional Community Banking Model is Dead

By: ***Don Musso***

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Consumer banking needs have not changed all that much over the last decade. However, the way those needs are met are going through transformational change. As such, **community banks must find ways to shed the traditional ways of delivering banking services and morph into the new reality**. Those banks that embrace the change will win, big. Those that do not will be acquired by those that do.

So what is the transformational change? It basically boils down to two key thoughts. The industry is now all about customers, not products, and it's all about relationships, not transactions. Although fundamental in concept, these are dramatic changes from the traditional community banking model.

Historically, banks have focused on products, not customers. This is reflected in the fact that banks organize themselves along a product orientation. This results in numerous employees chasing the same opportunity. Even worse, it results in banks spending resources chasing certain customers with a product basis they will never use or buy. For example, older baby boomers are saving for retirement. As such, they need savings, investment, trust and advisory services. Trying to sell them a 30-year mortgage has a slim chance of success. Trying to sell retirement services to a millennial also will be met with failure. Banks need to focus on customers. We need to learn from our retail brethren and listen to the customers' needs and then bring forward our products and services that meet the customers' needs. This greatly enhances the likelihood of success, as we are giving customers what they want and need as opposed to what we want to sell. Selling hot soup in the middle of the summer is not a sustainable business model. It may get some limited sales, but is the wrong product at the wrong time.

Banks have also focused on transactions as opposed to relationships. This made sense when we had a product orientation. However, customers breed relationships and so we need to build and maintain them. Banks need relationship managers to be the primary point of contact with customers. They will act as a traffic cop, directing customers to in-house expertise that meets the customers' needs. Their job is simple: Know the customers, their needs, their business and their personal situations and then meet and exceed those needs.

To shed the traditional model, **banks must embrace a different culture**. This means we need to:

1. Adopt customer segmentation across all silos within the organization
2. Reorganize into a customer-centric model

3. Hire relationship managers (call them whatever you want)
4. Establish strong calling programs
5. Create affinity with various customer segments

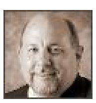
Integrating these concepts into a bank's culture requires a commitment from the board and CEO. They will need to accept change and be willing to change the business model accordingly. **They will need to break down the traditional silos inside the bank and integrate all departments into a customer-centric mode**.

The following list is proven to aid in this endeavor.

1. Create relationship managers and have them report directly to the CEO. Banks will still have product managers, but they must coordinate through the relationship managers.
2. Integrate customers into your budgeting and planning process. This means plan on getting customers and their relationships as opposed to various non-related products.
3. Build product bundles that fit targeted customer segments.
4. Target and track market share of customer segments.
5. De-emphasize brick and mortar and emphasize targeted delivery by segment.
6. Track family, friends, neighbors and acquaintances as sources of new business. Leverage off affinity.
7. Proactively identify opportunities and chase them. Do not wait for customers to knock on your door or call you.

Banks can continue to whine about falling spreads, lack of core business, high expenses and low fee income, or **they can change with the times and shift to a customer-friendly, relationship-oriented culture**. Banks who do thrive and become acquirers. Banks who do not will wither and likely become acquired. We have numerous case studies of banks that are shedding the traditional models in favor of the new on and all of them are winning in their markets.

Tags: Community Banks, Customer Relationship, Customer-Centric, Business Model, Bank Strategy, Retail Banking Strategy, Company Culture


Don Musso is president of FinPro Capital Advisors, Inc. He founded FinPro, Inc. in 1987, and it has become a nationally known thought leader in community banking. In 2012, Mr. Musso also formed FinPro Capital Advisors, Inc. (FCA) as a wholly owned subsidiary of FinPro to conduct capital market and investment banking activities.

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