

BEING THE 'NON-BRAND': THE COMMUNITY BANK ADVANTAGE

Thoughts on modern business loan competition

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Community bankers do a lot of complaining about their major bank competitors. But it's a foolish lament and here's why.

While all banks have a brand, so to speak, in the way that they do business, consciously or unconsciously, the big banks do it in spades.

The branches have the same look, from the fixtures to the color of the carpet. The product standardization is rigidly uniform across their entire footprints. This is where, in the area of small- to medium-sized commercial lending, it makes a competitive difference-and this tends to favor the community banks.

Lack of choice rankles

Why? Product standardization can drive business customers nuts.

The big bank with the standard product line does it basically one way and one way only. One size fits all. (Or so they think.)

I have found it to be fairly easy to compete against that. Community banks can tailor the approach to a customer and fit the product to the borrower, rather than the other way around. The customer appreciates the individualized attention, too, and that's a priceless advantage in this age of homogenization and standardization.

It's important to understand that the big banks' approach to business works well for them.

Banking is a business of scale and it always has been. The difference today is that scale is more urgent than it ever was. When one can replicate a single process or an entire product line and take the customization out of it, two things happen. First, operational risk is reduced through standardization and automation. Second, time is saved and labor costs, the largest single cost component for banks after the cost of money, are minimized. Those are powerful reasons today driving the way that the big banks do business.

This, though, is precisely the competitive advantage that the community banks enjoy in the current environment. We are generally competing with a mentality that says that there are three ways to do anything-the right way, the wrong way and "our way."

Take the customer's viewpoint

Community bankers know how the big competition thinks and pretty much how they are going to react to individual loan negotiations.

It must be acknowledged that such standardization is not the norm in large commercial loan transactions. Large credits are almost always carefully negotiated term by term, as they should be. What I'm talking about is the huge market for small- to medium-sized commercial loans where customization vs. standardization produces genuine product differentiation in terms of the customer experience.

"Product differentiation in commercial lending?" you ask. Yes, in the way loans are negotiated and delivered. The big banks are fielding the empty suits, those business development people who know lending from studying the textbook but not from the exchange of ideas or the building of mutual trust face to face in an ongoing relationship with the borrowing customer.

Think of it this way. The big banks don't build the same personnel cost component into the commercial loan product mix the way that community banks can and do. Community lenders interact with their customers directly and often while borrowing customers of the large banks often have no particularly close relationships with whom to discuss their concerns and issues.

Find your advantages--and be sure you present them right

One clear advantage that large banks have is in the cost of funding. With the variety of sources available to them and the wholesale funding cost differentials they command, they can always offer better pricing than smaller banks can routinely offer. The challenge, then, is to change the nature of the way small banks compete against big ones.

Community banks are not and cannot expect to be the low cost provider. So, they shouldn't try. What they need to do is base a competitive pitch on the value-added of dealing with a person they know and with whom they have a continuing relationship.

The challenge here is less in framing the issue than it is in improving and enhancing skill sets to be effective competitors in the credibility sense. As lenders:

- • Do we know what we're talking about?
- • Do we act professionally and competently?
- • Are we credible in one-on-one conversation with our customers and prospects?

Play to your strengths

I've expressed my opinion many times on the issue of how lenders from big banks tend to be better trained than community bank lenders. There is often more consistency, thoroughness, and breadth to formal, established training programs and it usually shows at least early in the careers of lenders from big banks vs. their small bank competitors.

But then, the balance often shifts. The variety of experiences open to the community bank lender frequently permits a broader range of hands-on experiences and personal growth opportunities that often surpass the experience of the large bank lender.

What community bank lenders need to do is to change their mental paradigms of how to compete with their big bank brethren.

The playing field is as level as it's been in years.

And the career prospects for the properly prepared community bank lender have probably never been better.

About Ed O'Leary:

Veteran lender and workout expert O'Leary spent more than 40 years in bank commercial credit and related functions, working with both major banks as well as community banking institutions. He earned his workout spurs in the dark days of the 1980s and early 1990s in both oil patch and commercial real estate lending.

O'Leary began his banking career at The Bank of New York in 1964, and worked at banks in Florida, Texas, Oklahoma, and New Mexico. He served as a faculty member and thesis advisor at ABA's Stonier Graduate School of Banking for more than two decades, and served as long as a faculty member for ABA's undergraduate and graduate commercial lending schools.

Today he works as a consultant and expert witness, and serves as instructor for ABA e-learning courses and has been a frequent speaker in ABA's Bank Director Telephone Briefing series. You can hear free audio interviews with Ed about workouts here. You can e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.

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