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Bank mergers and Competition

Wachovia Corp. has agreed to purchase competitor SouthTrust Corp. Hibernia Corporation acquired Coastal Bancorp, Inc. J.P. Morgan Chase & Co. is cleared to absorb Bank One Corp.

Whew! Banking is no longer boring.

The Chase merger will form the second-largest bank in the United States, with $1.12 trillion in assets. For Chase, this requires a significant investment in new signage, business cards, letterhead, envelopes, displays, imprints on about 51 million credit cards, etc. There will be employee issues and expenses as well.

And consider the thousands of other banks providing the same service: How will they compete? How can they compete? Some will not survive. One strategy is to become acquired. What other strategies are feasible? The answer: Successful differentiation that resonates in their marketplace. This is a valuable strategy even for those banks that are in the game to be acquired, because it will generate for them a higher purchase price.

Differentiation. But what can be the difference between banks?

Some might think that banks are all alike and therefore cannot be differentiated. Such unenlightened thinking is common in many industries. History reveals however that anything can be made distinctive and a preferred choice of buyers (and acquirers). For decades, catsup, pickles, flour and sugar were sold as commodities in large unmarked tubs. Then Heinz, C&H and Gold Star came along and turned these commodities into unique brands and made billions of dollars.

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Even though they are almost identical biologically and chemically to the other competing brands in their categories, buyers perceived differences. And that influenced their purchase decision. And it still does to this day.

How do we distinguish between similar brands and how does one brand become preferred?

The explanation is subtle. The more similar the competing companies are in a marketplace, the more important any difference becomes. And when meaningful differences are difficult (or impossible) to find in their products or services, the market will find differences outside of the product or service. Therefore the careful management of the seemingly inconsequential then becomes a priority required to achieve marketplace success. Market-savvy companies all know this. Market leaders not only know, but also, demonstrate this fact.

If a bank is perceived as no different than its competition, it's in trouble. It's going to be a long, hard journey, fraught with unbearable risk. It may be a short journey with a premature end. Creating and communicating uniqueness in a way that resonates in the market is central to any successful business strategy.

Consider the history of banking. In the beginning a community had one bank. That was Stage One. The city got a basic, acceptable reliable service. It was a minimal service, but the market gladly accepted it. Then comes Stage Two: Competition. Now there was a second and a third bank. The citizens now have a choice of service providers. Now dominance depends on differentiating your service as the preferred choice. Enter the notion of Marketing.

Most banks have a common theme: "Our People Make the Difference." Which makes sense, but the way they typically express this "It's All About People" theme represents money wasted. Because simply quoting that statement actually communicates"We're Not Special, We're No Different, We're Ordinary," since competitors are saying the same thing. And that's not a competitive sales position.

They listen and make refinements that customers ask for: branches, ATM cards, credit cards, lower fees, specialized loan programs, toasters, blenders and other gimmicks. Now competition is entrenched. It's not as much fun being a banker any more. It's tough slogging. Few banks will enter Stage Three. Let me explain.

In the animated cartoon business, Disney entered Stage Three when it opened its themed amusement parks. That idea went beyond what customers asked for. It was something no customer imagined. "Focus Groups" did not come up with that idea.

And this is the key: To differentiate itself clearly from among a crowd of look-alike banks who are all meeting customers expressed needs, the Stage Three bank must surprise everyone with a wonderful new feasible idea that will resonate. And then promote it wisely.

Whereas Stage Two is market driven, Stage Three is imagination driven. Stage Two is responsive. Stage Three is creative.

This is what Wells Fargo is suggesting with their slogan "The Next Stage in Banking." It's an appropriate slogan for Wells Fargo considering their history, name, stagecoach logo and the current situation in banking. But will they go beyond that? I'm still waiting to see evidence on the horizon. Nevertheless, they have distinguished themselves from other banks with their coordinated logo, colors and slogan. Seemingly inconsequential items.

The smaller banks can not only compete but also actually overcome larger banks in their market, but it requires focused creativity.

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It will be interesting to see if any mid-sized or smaller bank will break out and successfully establish more influence in the way the market positions them. Since meaningful differences are difficult (or impossible) to find in competing bank services, the market will choose a bank with some other difference that resonates, no matter how apparently inconsequential.

Frost Bank in Texas is doing an excellent, coordinated job of reminding their market, "We're from here," every time they reach their eyes or ears. Consequently, Texans tend to perceive a Frost banker as "one of us." That's comforting. Stage Two is where focus, and managing the inconsequential, become critical.

The best opportunity lies with the mid-size banks. It will not be easy though. In fact, it requires significant intelligence and creativity, but the yield can be enormous. Today's Chase began life as one bank location in Manhattan.

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