



## Chapter 1

# What Business Are You *Really* In?

Industry publications write about Umpqua a lot. And they usually say nice things, remarking on our strong growth, our return to shareholders, our reputation for being cool and quirky, and our unique organizational culture. But these articles almost always insert a comment that irks me. No matter how positive the article is, it almost always says something like, “Umpqua Bank calls its branches ‘stores,’” as if the word *store* is a gimmick. They humor us by putting *store* in quotation marks, as if real grown-up bankers wouldn’t be so silly as to call their branches that. But it’s not a gimmick. It’s part of who we are and how we see our business. They don’t understand that it’s a huge, even dinosaur-sized, part of the reason they are writing about us in the first place! It’s part of our unique culture that they extol.

Why do we call our facilities *stores* rather than *branches*? Because we understand what business we are really in. We’re in the retail service business, which to us means we sell banking products and services to the public in our stores. In this chapter, I explain exactly what I mean by that and why it is so important for you to understand what business you are really in.

## Business Not as Usual

It is too easy to look at your company and say, “we’re in the banking business.” (Or in the tire business or the computer business.) You will never break free of the hold of conventional wisdom with that kind of thinking. And if you can’t break free of conventional

wisdom, you'll never break out of the pack—you'll never create a competitive edge that separates you from your competitors.

To illustrate how a lack of understanding of what business you are really in can do to you, just consider Steve Jobs and Apple Computer.

Back in the early 1980s Jobs thought that his company was in the computer business, specifically the computer hardware business, and that it could prosper by selling better computers than its competitors. And for a while, that worked. Then IBM entered the picture, along with its then-partner Microsoft. In 1984, Apple tried to jump ahead by introducing the first point-and-click operating system with its revolutionary new line of Macintosh computers—a great leap forward that was much easier to use than Microsoft's cumbersome DOS system. But unfortunately, Jobs never realized that the business was changing and that he was now competing in the software business. He and his successor John Sculley kept the Mac operating system proprietary and used it only as a way to sell Apple's hardware.

Apple thought it was competing against IBM, Compaq, and the other PC clones when it was really competing against Microsoft. When Microsoft copied the look and feel of the Macintosh system with Windows—and sold it to every comer—Apple's goose was cooked. Of course, Apple faced many hurdles—who knows what might have happened if Jobs hadn't been forced from the company? But it's my firm opinion that if Jobs had understood early on that he was really in the software business, we probably wouldn't know Bill Gates as the world's richest man.

So understanding what business you are really in is absolutely critical to success.

"Okay," you might say, "that's an extreme example from the early days of a revolutionary new industry that was growing exponentially and whose landscape was changing daily. I'm in a mature industry that's growing slowly, even in good years. How does that apply to me?"

Well, it applies to you in spades! And Umpqua is living proof. After all, banking is a mature business if there ever was one—banks have been around for hundreds of years! Walk around any city, any small town, and you'll see a dozen banks in a few blocks. And don't talk to me about growth! When we started to reinvent Umpqua Bank

in 1994, our market was in the midst of profound economic slump. The economy in our region was rooted in the timber industry—and just happened to be the home of the Spotted Owl and a strong environmental movement. Talk about total lack of synergy. The economy was at a standstill, our market wasn't growing, and yet we found a way to make Umpqua grow, moving from third in market share to first in just three years in our home market. How did we do it? For starters, we had to kill conventional wisdom in the company. We had to stop our people from thinking like bankers and get them to think like people in the business we were really in: retail service.

Most businesses are run on conventional wisdom, and they struggle to get by. Every quarter it's the same story. Are we meeting our numbers? Are sales up? You cannot grow your business by feeding it conventional wisdom. And you cannot grow your business if all you are doing is worrying about your numbers—because then you are not honing a strategy to seize the future. As the new leader at Umpqua, my first job priority in reinventing the company was to kill the conventional wisdom that had guided the company for forty years. The bank's board had hired me to take this small company and make it grow. Together we decided to seize the future.

But let me go back to the beginning.

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**You cannot grow your business if all you are doing is worrying about your numbers.**

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## Seizing the Future

When I was contacted about running Umpqua in 1994, it was a small community bank in rural Oregon with \$140 million in assets and six small branches. It was called South Umpqua State Bank, even though there wasn't a North Umpqua State Bank. The previous CEO had retired, and the board was looking for a change. The bank was at a crossroads. It was a solid bank and well respected in the small communities it served. But it wasn't really going anywhere, and by continuing to practice the purest definition

of insanity (doing the same thing over and over again while expecting different results) the company was doomed to go nowhere and in fact its future would have been doubtful. The big banks smelled blood and were sniffing around, looking for prey—in our world, acquisitions.

When the board interviewed me for the CEO position, I told them that if they wanted things to stay the same, I wasn't their man. But if they wanted to employ a strategy that might have a good chance of creating shareholder value, then I might be a candidate. Fortunately for me the board realized that if they were serious about creating value for the shareholders and improving the overall intrinsic value of the company, they would have to support dramatic changes in how it operated, marketed, hired people, and the like. In fact we had to reinvent the entire institution, and build it around the principles and practices of the business we were really in. The board bit the bullet and took a chance with me—an unproven character from Atlanta, Georgia.

Before coming to Umpqua I had run a bank management consulting firm and dealt with CEOs from all sizes of banks across the United States. I learned a lot in dealing with all these different bankers. In fact, it was like attending graduate school. I learned what *not* to do, from helping people fix some of the stupidest mistakes they could have made. I also picked up some pretty good ideas. But overall, I was amazed by the lack of creativity at the top levels and felt that I could take my ten years of consulting experience and put it to work in a small bank with a well-defined market and hopefully create something interesting.

Here's why.

What had struck me during my years of consulting and traveling around the country, going to all these different banks, was how similar they all were—and how bland. You know from your own experience that the typical bank is quiet, cold, and boring. It has ropes to keep people in line, empty desks, and stale coffee. You can see how bored the people in line are. Often the tellers aren't much more animated. Sure, you'll get a shy smile and a weak "thank you," but two minutes after you walk out, you'll have forgotten the whole experience. I could put you down in almost any bank in the country, and you'd know right away you were in a bank, but ninety-nine times out of a hundred you'd have no idea *what* bank. They are *all*

the same. I started to think that if you created a bank environment that was distinctive, attractive, and inviting, with great customer service, you might be able to give your bank an identity that people would respond to.

Think of your own business and industry. What do you and your competitors do that is boring, stale, or bland? Is there something that is numbingly similar across every company, including yours? If so, you have a great opportunity.

I also realized that we would not be successful in differentiating Umpqua with resources, people, computers, locations, saturation-marketing campaigns, you name it. We were a tiny outfit; the big guys had bigger guns—they had already won that battle. And I knew full well that bank products are for the most part commodities. Sure, different banks will have slightly different loan terms, savings rates, and check colors, but they are all similar. So I felt there was little to no opportunity to have Umpqua stand out with products. Even if we were capable of creating a new and exciting product, I knew it would be copied by a competitor down the street within a few days.

I got together with my management team and we started asking ourselves questions: Why would somebody want to bank with us? Here we were in a depressed market, competing against all the big national players as well as credit unions and other community banks. How were we going to stand out? How were we going to get people to drive by two or three of our competitors' branches to bank with Umpqua? We realized that we had no answers to these questions as things currently stood. If we wanted to grow, we had to *create* answers to these questions.

If you sell tires, it's the same question, why would somebody want to buy tires from you? Why wouldn't they just go to the nearest tire store? Why would someone be inconvenienced and drive past two stores to get to your store? These questions were critical to our survival.

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Think about your business. How do you stand out? Why should someone do business with you over another competitor with virtually the same products and services? How are you differentiating your department, division, or company so you stand out from the pack? How you answer these questions is critical to *your* survival.

I frequently tell people that the radical changes that we were going through began with a motion picture that played only in my head. It was always very specific in that it had a beginning and ultimately a happy ending that showed where we wanted to go—but the middle, which showed how we were going to get there, was always changing as the movie played out in my imagination. It depicted (to me at least) what it would be like to walk into a bank that people *did* want to hang out in, that was exciting, that was, just maybe, even a little bit cool. The movie that was playing in my mind was fuzzy around the edges at first, but one thing I saw clearly was the potential to significantly differentiate our company from our competitors and allow our customers and clients who entered an Umpqua store to know right away what bank they were in—Umpqua! Through this crazy little movie I had already started to think of Umpqua as not just another bank, but as something else entirely.

I kept playing that movie in my mind, over and over, people walking into a bank that was exciting and made them want to linger a while. Where do people hang out? Starbucks, of course. Lots of people also like to go to the mall and hang out at Nordstrom or the Gap. But those were very different businesses. Or were they? And that's when I started to focus on the larger picture of understanding exactly what industry we *really* competed in. Of course I realized that since Umpqua is a bank we clearly competed within the financial industry. However, I also realized that banks also compete in the retail service industry. Think about it, financial institutions sell products and services just like the companies that sell perfume, Levi's, or coffee. Retailers have stores. So do banks, only they call them branches . . . for some reason.

What would Umpqua look like if we recreated it from the ground up as a retailer that just happens to sell financial services? Retailers work hard to make their stores attractive, even exciting, and focus on displaying the products and services they sell. They know how to draw customers into their stores and motivate those

customers to buy. The best of them know how to build outstanding customer loyalty.

The movie in my head started to become more vivid. What if, like Nordstrom, we created an environment that drew our customers back into the store frequently to browse through our products, making it easy for them to interact with and ultimately purchase our services? After all, market research shows that two-thirds of consumer purchases are impulse buys.

I started talking about this movie (yep, still playing in my head)—my vision for Umpqua bank—to my management team. I told them, “Nobody goes to hang out at the local bank, just to kill a few hours, as people do at Nordstrom or Starbucks.” I asked them to imagine what Umpqua would look like if we decided to see ourselves as a retailer offering financial services. How would our stores (not branches) look? How would we do things differently? Could we actually entice people to come in just to hang out? How would we operate? How would we train our people?

## Reinventing Our Business

We didn’t have all the answers at first, of course, but slowly things started to change.

One of the first things we did was to stop hiring people who had a banking background and nothing else. Since we wanted to transform ourselves into a retailer, we looked for people with a retail background. (As I said, *This ain’t rocket science, folks!*) For a teller position we would hire someone who perhaps worked at the Gap since their job was to dazzle people who came to the store, know their product line, help customers find what they were looking for, suggest other things to buy, and make sales. These people were used to working on their feet and understood the sales process. Compare a person with a retail sales background to a person who had been a teller for ten years—sitting behind a teller window and never selling a thing from one year to the next. Who would you hire? Most bankers would have hired the teller, of course. Not us.

I also sent teams of people on road trips to different cities and asked them to look at companies that have a reputation for some sort of pizzazz, places like Restoration Hardware, the Gap, Nordstrom, even a luxury hotel. I told them, “I want you to observe.

Use all your senses, find out what things look, feel, smell like. And when you come back, I want you to step out of the day-to-day, forget about how banks are supposed to operate, and use your imagination to think about how this might apply to us.”

As we went along, we made a lot of small changes, which I won’t bore you with here. Then, in early 1996, we thought we were ready to assemble everything we’d learned into what we called our first concept store. We built this new store in Roseburg, Oregon, near our headquarters at the time. It was a \$4 million project for us, a serious investment for a company our size. We hired a consultant to help us plan the design—and it wasn’t one of the bank consultants, because we knew what they would offer. Since we had decided we were really in the retail business, we hired a consultant who focused on retail design and marketing—Charlene Stern of Stern Marketing, a true professional. She challenged us to break free of ideas that might still be holding us back and to really focus on the retail experience we were trying to create. (And I must say, her advice was superb; we received an incredibly positive response from our customers when we opened the store.)

But a building does not make a store. To make the store work, it would take people. Good people. Creative people. I made a deal with my executive vice president of retail, Steve May, that allowed me to personally hire the people to staff the concept store. I was not looking for job skills. I was looking for energy, a twinkle in the eye that says, *I can do it; I am capable of anything, if you give me the tools*. That last part is critical. I found great people, but I had to give them the tools. That was my responsibility.

So before the new store opened, we rented a suite at a local hotel and conducted an intense six-week training program for the store’s newly formed team. We made sure they had a full understanding of all our products and services, so each one could help any of our customers with anything they needed. We also focused on sales techniques, manners, and other retail service skills.

Finally, the builders were done with all the finishing work and our people were ready and eager to open the doors to the new store—shown in Figure 1.1. And it made quite an impression. It certainly looked like the sort of place where people would want to hang out. We had a computer café with free Internet access and our very own Umpqua brand coffee, an “Investment Opportunity



FIGURE 1.1 UMPQUA'S ROSEBURG STORE



Center” for investment type products, and a “Serious About Service Center,” that offered general information and had a phone that connected right to my direct line. Anybody with a problem was invited to call the CEO.

This was so different from a bank that at first we had a number of customers who would step in for the first time, look around, and go right back out to look at the sign over the door, to make sure they were in the right place.

They’d come back in, a grin on their faces, and ask, “Is this really Umpqua Bank?” When one of the associates assured them that it was, the response was often, “Wow.”

That was just the reaction I was hoping for. And before long, people actually started to hang out at Umpqua Bank!

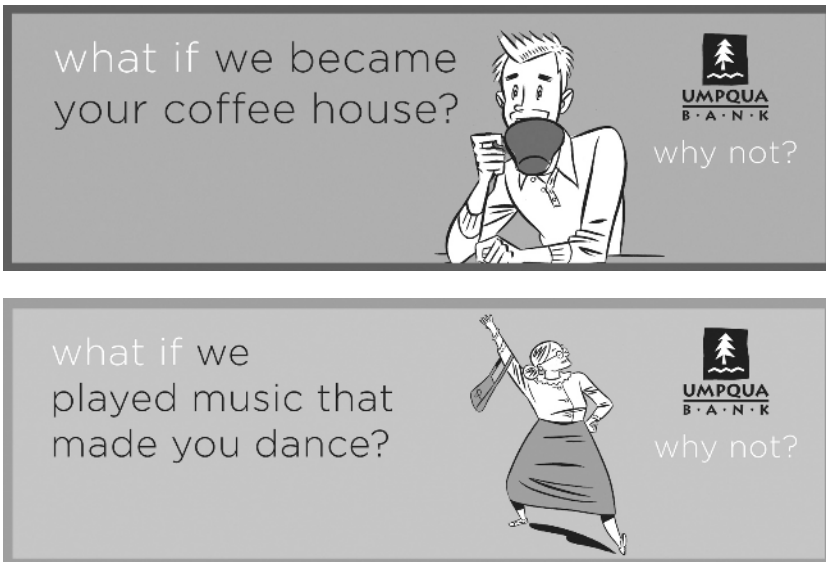
Our competitors in town thought we were nuts. But not for long, not when their customers started to become our customers.

You see, our first concept store, embodying our commitment to the retail business we were really in, created a significant competitive advantage over our competitors. And it quickly moved Umpqua up to be one of the fastest-growing community banks in the Northwest. Within three years of the introduction of our new retail strategy in this market we had become number 1 in market share and today we control over 43 percent of this market. (Figure 1.2 shows ads illustrating our retail concept.)

As word of our success spread over the next ten years, banks from all over the world, including small community banks and giants such as Citigroup and London's HSBC, came to see how Umpqua has successfully differentiated itself. They are usually drawn to us by an article or photo of our new store design that appeared in one of those magazines that refuse to refer to our stores without quotation marks. These bankers come to learn our secrets: our non-rocket-scientist formulas that when you get right down to it are really just basic sound management and marketing strategies that work!

When they visit, they kick the tires, take pictures of our stores, sip our coffee, and make notes on our design and floor plans.

FIGURE 1.2 UMPQUA ADS



However, after they see how our stores look and feel, it doesn't take long for them to zero in on the things that have really made us stand out. Even though they have come to us to visit our store design and product delivery system, what they really want to know is the answer to this question, which is asked on every visit: "How do you get your people to act the way they do with your customers?"

You see, for us, understanding what business we are really in is not just a gimmick; nor is it just a matter of hiring an architect to build a fancy store—any company can do that. Seeing ourselves as a retailer extends far beyond selling coffee mugs and T-shirts. It affects how we hire, train, and reward our staff; how we measure ourselves; and—most important—how we shape our corporate culture and the values it embodies. Our culture is unique, and I describe it at length in Part Five. It's why we feel secure in giving these tours to our potential competitors. They can copy the look of our stores, but they can't copy our culture, our DNA.

## What Business Are You Really In?

Understanding what business you are really in is not so much a discovery as a willful act of creation. When everyone in your industry is playing by one set of rules, you must decide to play by another. We decided to play by retail rules rather than banking rules. This is especially important if you compete in an industry that basically offers products or services that are commodities. The only way to break away from the pack in such a situation is to start operating on a different playing field.

When you move to reorient your company around the business you are really in, you'll find it will lead to changes in almost everything you do. You'll need to rethink many of the key dimensions of your business:

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**When everyone in your industry is playing by one set of rules, you must decide to play by another.**

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- What success looks like
- How performance is measured
- Marketing objectives and strategies
- Hiring and other personnel issues
- Rewards and incentives
- Culture issues
- Customer relations

I'll discuss all these issues in later chapters.

Too many businesses look only at their competitors. Benchmarking your company's performance against your peers or competitors was a big fad awhile back. The idea was that you'd identify who was best in your industry at doing something, and then try to match their approach and standards. Now, all that will do is make you as good as (the same as) your competitors. Decide if you just want to tread water (which you can't do forever) or want to grow your company and stand out. Ask yourself what you are doing to get people to switch from your competitor to you. To make your business stand out, you will need to think about your business differently from the way your competitors do.

How can you uncover what business you want to be in? Here are a few ideas to get you started:

*Find a business you admire that is outside your industry and study it.* Nordstrom was not Umpqua's competitor, but it was similar to us in that it was in the retail business, as we were, although it sold clothes and we sold financial services. We set out to learn from Nordstrom and other retailers that provided excellent customer service, not from Citibank. Study and visit businesses that are not competitors but are similar to your business in some way. What can you learn from them? How can you twist what they do and apply it to your business? I promise you, your competitors are not doing this. Just taking this small step will give you an advantage over others.

*Look for the conventional wisdom in your business or industry.* The more sacred the cow is, the better. Challenge it. How would things change if you stopped doing X or Y or did them differently? Killing conventional wisdom is only the first step, but it is an essential step.

*Get off the battlefield and take a bird's-eye view.* Whatever business you are in, you are also in a larger category. We knew we were in the banking business, but what truly expanded our minds was when we realized we were also in the retail service business, just like Nordstrom. If you sell tires, you're also in the automotive business. If you're a travel agent, you're in the entertainment industry. Or do you primarily serve business customers? Then see yourself as providing business services. How would that change the way you do business?

*Recreate your business with a blank piece of paper.* Imagine that your business was wiped out by a hurricane or earthquake and you received its full value from your insurance. How would you rebuild it?

Legendary management guru Peter Drucker pointed out that every organization operates on a *Theory of the Business*, that is, a set of assumptions as to what its business is, what its objectives are, how it defines results, who its customers are, what the customers value and pay for. Much of the time, this theory is unarticulated and doesn't go an inch beyond the conventional wisdom of the industry a company operates in. When you start to examine what business you are *really* in, you'll uncover the assumptions that you have been using, and then you'll have an opportunity to change them.

## A Final Word

Here's a word of caution: saying that we are in the retail business doesn't mean we don't have to be very, very good as a bank. It means that we have to be very good as a bank *and* as a retailer. We have to live up to high banking standards *and* high retail service standards. That makes all of our jobs just a little harder.

But we don't mind.

We take pride in our company. Ask any of our associates and they'll tell you, "You've got to be *good* to work at Umpqua!"



## MOTIVATIONAL MOMENT



### *Thinking “Outside the Boxes”*

*Exercise:* In the following line of letters, cross out six letters so that the remaining letters, without altering their sequence, will spell a familiar English word.

B S A I N X L E A T N T E A R S

*Answer:* Cross off “SIXLETTERS” and the remaining word is BANANA. This exercise encourages associates to look at things differently—most associates will be searching and selecting six different letters to cross off. The exercise shows them to keep an open mind and remember there is always another way to look at things.

*There is always another way to look at what business you are in.  
Think about it!*

—Ray