

I appreciate all your support and continued engagement during the last 2 months. It was a nice break from the podcast and I hope you enjoyed our “Greatest Hits” series. I had a lot of fun going through older episodes (and some cringey moments too!) and those episodes really stood out in my mind as my all-time favorites that still had something relevant today.

It’s been a minute since we have picked up *The Art of War* to see what this 2500 year old book on warfare has to teach us about strategy in community banking. We’ve also spent a good amount of time here on the podcast about strategy and what it means (and what it doesn’t!). It’s a topic that I’m particularly passionate about as I believe it is the key determinant between success and failure of a community bank. It speaks to culture, emotional intelligence, speed to adapt to change, asset/liability management, deposit and loan pricing, branching strategies, improvements to the efficiency ratio...it all starts with a strategic plan and one that is well executed from the top-down...and has buy-in from the bottom-up.

Before we get too far into the book, I wanted to pull over and park and bring you up to speed on what’s going on at Barret. Today (August 11), we’re kicking off our HR program with Dr. Kerry Sauley. For those of you alums that have had Dr. Sauley, you’ll know how much fun it is! If you didn’t get a chance to sign up, we’ll have it available on-demand in our Advanced Learning Platform (ALP). Also, Roundtable is getting a MASSIVE shot in the arm and taking some big steps forward. We’re opening up an Ag Lending Roundtable group each quarter and we’re starting off with Tim Ohlde who does our Ag Lending 101 and 201 classes as well as a frequent podcast guest and speaker at our Ag Lenders Conference. I can’t tell you how excited I am to be launching this Roundtable and how it will help ag lenders all over the country. In addition to the Ag Roundtable, we’ve moved our Roundtable into the ALP. If you’re a member of the Roundtable, you should be getting your sign-in information soon. As

a result of moving this into the ALP, members get access to the archives of older sessions, the most recent recordings, and some interesting articles, links, etc that we call the SWAG bag. We're also going to be building out an online community for our Roundtable members and we need your help in picking a platform. There's a *very* brief survey there that will help us find the place to put a Roundtable community together where we can come together in between our quarterly sessions. If you're not a member of Roundtable or you have no idea what on earth I'm talking about...email me at byron@barretbanking.org and I'll be glad to talk with you about the program.

Back to The Art of War...Chapter 10!

As a bit of a refresher, Sun Tzu, in the very first chapter, introduces what he calls the 5 Constant Factors. They are the moral law, heaven, earth, the commander, and method and discipline. For our purposes, the 5 Constant Factors for the SuperHero Community Banker are our culture (moral law), the macroeconomic environment (heaven), our markets (earth), leadership (the commander), and our operations (method and discipline). Chapter 10 deals with earth...or...our local markets. How do we move within them...both in existing markets and in new ones...and have victory?

Were Sun Tzu a community banking consultant in the 21st century, he would classify our markets into one of five categories. (Note, Sun Tzu had 6 in his treatise...I'm combining two of them)

1) Easy Market--Easy ground is easy to move around in. The superhero community banker will move around before their competition and also keep an eye on their "supply lines" or their loan pipelines or deposit pipelines. These are the markets that are "yours". You own these lock, stock, and barrel. A lot of times, in rural situations, this is where your

bank was founded. *Own* that advantage! That advantage...in that market...is what makes the big banks have to work harder. Keep them out...keep ahead of the competition! In urban markets..."easy ground" doesn't have to be geographic...if you're the best bank for left-handed plumbers named Leroy...*own* that space! Markets do not need have to be geographic!!!

2) Slow growth or entangling markets--These are the markets that probably are not the best producers but you can't really get out of them and you don't really want to get out of. These are tricky and it takes a keen awareness of our competition. If you find they are ill-prepared for an attack...attack them and turn it into a good market! If they are prepared or you're not successful in overtaking them...I like what Sun Tzu says..."return to being impossible". Irritate them. That's right...don't spend a lot of money in a market that is not profitable...but keep their eyes on this entangling market far more than they need to.

3) No-win markets--This is mostly in urban markets that are dominated by larger banks and market share for community banks is measured in bps. If Bank of America is the dominant player in your market, you are not going to overtake them. The strategy here is lay and wait...at some point, they are likely to mess up and be ready to pounce on their mistakes. I used to tell the bankers that worked for me...sometimes the best marketing strategy is just NOT be the other bank.

4) Technology. Technology is odd in that it is both a tool for strategy and a market unto itself. The optimum strategy here (whether as a market or a strategic tool) is get there first. Usually, if an army takes the field first and has the most soldiers, you win. Game over. However, it is not always like that with technology. Now, you might be the first in your market to have the latest and greatest fintech. If so...take it and run with it. If you're not, then don't go to a shooting match with a BB gun as my granddad used to say. Don't engage a competitor that is stronger

than you. That said...wait and watch. With the rate of change we are seeing with technology, at some point, you will see a break where you can gain a competitive advantage. Given the interaction we are seeing with community banks and fintechs, you may even have a say in creating that advantage yourself with partners like The Venture Center. Keep a watchful eye out.

5) Finally, Long Shot Competition. Again...this does not mean necessarily geographic. These are the competitors in your markets that you can't take on right now. No shame in that. I think I've told this story before here but my first branch, right out of college, we had a manager who made it her mission and ours for our little in-store branch to hit all four goals on our scorecard. It had never happened before. Bad market...small and disengaged staff...all the usual reasons. What I learned by that (when we actually did hit those goals...3 quarters in a row!) is take on the obstacle in front of you. How do you eat the 800lb gorilla? One bite at a time. She actually gave me a stuffed gorilla that I've had ever since that reminds me to slow down!!! Pick your battles that you know you can win. Don't look too far out ahead of you. If you get too far in front of success, you will spend a whole lot of time preparing for a showdown that, quite frankly, you won't win. That's a lot of time and money that could have been better deployed by taking one bit of the gorilla at a time.

Interestingly, Sun Tzu pivots from his conversation about terrain (in our case the market) to understanding defeats and where it comes from. That speaks directly to the importance of understanding our markets. In order to understand and achieve success...the superhero community banker needs to know what can happen and what to watch out for and understanding our markets (Again...geographic markets or not!) plays a HUGE part of that.

And basically it comes down to Emotional Intelligence...how well do we

know ourselves and our people.

If our staff is strong but middle management (and up) are weak, we are likely to have insubordination...or tendency not to follow directives.

If the staff is weak but middle/upper management is strong, we have collapse.

If upper management is engaging competitors out of their own pride and not taking into account the rest of the bank or any amount of strategic thought, you get ruin.

If the Leadership's directives are not clear, no clear strategy communicated, everyone's not on the same page, you have utter disorganization and/or a rout. Utter defeat....Tennessee football at the hands of Florida kind of beating.

But do you see the common thread here...do you see how culture and emotional intelligence play into this alongside strategic thinking? It's not just a feel-good kumbaya thing...emotional intelligence, coupled with careful strategic thinking, is the difference between success and failure.

Tzu wraps up this discussion by discussing the importance of this idea by using the analogy of a family. Now, initially, I thought it was a stretch...and maybe even too paternalistic in today's day and age and I think that is worth mentioning. Tzu talks about thinking of the military like children and adopting a parental approach to them. Again, that can go into areas that can be misapplied but consider an over-indulgent parent and a parent that is far too strict. Neither parent are, really, giving the child any direction and that's the point he's making here and what we can mine from this. As leaders...as superhero community bankers...having the insights into ourselves, our teammates, our competi-

tion, and our markets...with the wisdom of a loving but firm parent...one that is keen to give guidance, direction, and set up those under his/her care for success...*that* is the key to strategy and finding victory in our markets.

So, to paraphrase my favorite song of all time...all along the watchtower, bankers kept our view. Stay diligent...keep a sharp eye on your markets...and spend some time learning about yourself, your people, your competition and your markets. It will be time well spent.