



Agent of Change with a vision

How Umpqua Bank used modern design to embrace one of banking's most cherished, old-fashioned strategies: The face-to-face relationship

Of course the customer and his friends had reason to be doubtful—plenty of CEOs rely on assistants and form letters to keep a buffer between themselves and their customers. But not Ray Davis. He has a customer phone installed in every Umpqua branch, and they ring right to his office on the twelfth floor of the tall, brick Umpqua Bank headquarters building overlooking the Willamette River in downtown Portland, Oregon.

Davis had actually talked with the customer earlier in the day (“When customers call me, I call them back!” says Davis) but now the customer wanted to call again at the arranged time—when his friends were around—and Davis had gleefully consented.

Tall, fit, with salt-and-pepper hair and a commanding look common in CEOs, Ray Davis does not at first seem like the sort of guy who would partake in a practical joke with friends. He is, after all, the head of a bank with 148 locations and \$8.3 billion in assets. But talk with him for a while and it’s easy to see he’s quick to smile, comfortable in his own skin, and a true evangelist for Umpqua Bank’s culture and customer service. And he’s used to the phone calls. His unusual phone network is but one element of a much bigger innovation he spearheaded nearly 15 years ago that used contemporary design, a new outlook on service, and a sense of community to transform Umpqua from a bank to a retailer—a risky move that pinned the company’s entire future on the old-fashioned concept of face-to-face banking when everyone else was rushing into automated, online anonymity.

It Takes a Village

Named after the Native Americans that inhabited southwestern Oregon some 150 years ago, Umpqua Bank began as South Umpqua State Bank in 1953 in the tiny town of Canyonville—a quiet, working-class community that today is home to fewer than 2,000 people. The bank was little more than a place for local lumber and mill employees to cash their paychecks.



The call was coming at 12:50 P.M. Ray Davis, the CEO of Umpqua Bank, was staying near his desk so he wouldn’t miss it. The expected caller: a customer whose friends had bet that Davis was a typical, stodgy CEO who wouldn’t take his phone call.

Growth came slowly; after forty years in business, Umpqua had only \$140 million in assets and just six branches. “These were salt-of-the-earth people,” says Davis. “They had created a great little bank, they never had problems . . . and I don’t think they had a view of anything else. I mean, the CEO had been there for 34 years.”

When that CEO decided to retire in 1994 and Umpqua’s board of directors decided to make changes, Ray Davis stepped in—reluctantly, at first. Though he had run a bank-management consultancy for 11 years, becoming a bank CEO meant jumping from making recommendations to implementing change. It meant moving his family from bustling Atlanta, Georgia, to rural Roseburg, Oregon—“the middle-of-nowhere, Oregon” as Davis put it—where Umpqua was headquartered at the time. And most of all, becoming CEO meant Davis would have to trust that Umpqua’s directors really did want change—because after over a decade of seeing how poorly banks marketed themselves and their products, Davis had some radical ideas up his sleeve.

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Davis wasn't just thinking about changing the signs and a few procedures; he was thinking about changing the entire life purpose of Umpqua's branches. He wanted to convert them from boring, office-focused places that handled administrative tasks to interesting, stylish retail stores that sold banking products and services. The plan involved a complete change in store design--everything from the layout to the furniture to the pictures on the walls--and it required a whole new outlook on what bank employees were supposed to do.

Having the board's support was crucial to Davis. "I said, 'Look, if I am the guy you think should run the company - if I'm your candidate - then here's the thing you need to know. The first one is, everything you know about this bank I will turn upside down

... I'm not coming out here for practice. I'm not going to do this for three months and then you just say, 'Whoa, this is way too much change, we don't want to do it.'" The board signed on.

Branching Out

The notion of investing millions in branch design seems counterintuitive when more and more banking is done online. But even though websites are great for paying bills, argues Davis, they have yet to cross-sell banking products well. "The only way banks are going to perpetuate themselves," he says, "is by being very good at selling their products and services, just like the guy who sells tires or legal services, whatever it is." And if the Web hasn't yet gotten it right, Davis figured, then it's up to the branches to get the job done.

FAST FACTS, RAY DAVIS:

Alma Mater: University of Nevada, 1971

Major: Accounting

Military Service: Army

Least-Favorite Job: CPA

Childhood Dream: To be a Major League baseball player

Introvert or Extrovert: Introvert

Wishes He Were Better At: Being patient



But back in 1994, Davis knew that if he couldn't get customers into an Umpqua branch, he couldn't sell them anything. Customers had to want to do more than just make a deposit or cash a check when they entered a branch. Davis's idea was to encourage them to shop. And in order to shop, they needed a store. A banking store.

Davis admits this first phase of the redesign was more art than science. "Sort of like, 'That looked good, let's do that. That should work, let's do that,'" he says. And when the redesign of Umpqua's first branch in Roseburg was completed during late 1995 and early 1996, most people were pleased--but not everybody. "A lot of people said, 'Well, this won't work,'" remembers Davis. "A lot of retired people, a lot of blue-collar people saw a computer--they didn't have computers--and said, 'This isn't going to work. This is a mistake.'" Davis also became somewhat of a pariah at banking conferences once word of his strategy got out.

But the strategy worked. Umpqua's market share grew from third to first in less than three years, and by the end of 2002 the company had 68 stores and \$2.6 billion in assets. Davis heightened the fervor in 2003 by hiring Ziba, an established design consultancy in Portland that serves everything from start-ups to heavyweight Fortune 100 companies, to handle the rest of the branch redesigns. Ziba added science to the model, according to Davis. For example, it incorporated foot-traffic patterns--a common element in retail design--to take advantage of the fact that most people turn right when they enter a room. It incorporated merchandizing principles by segmenting stores into mini-boutiques dedicated to making standard transactions, reading

financial publications, browsing the Internet, and even sitting and enjoying a cup of coffee. Ziba also methodically determined the best color palette and furniture-and-fixture design for the stores. "They put us through a psychological test," chuckles Davis, "where we had to pick the squares and the triangles--I mean all this different stuff, to where they could come back and say, 'Well, this is what you really think might be the best and here's why we agree or disagree.'"

Delivery by Design

Though the physical transformation was as dramatic as Davis had envisioned, Umpqua's reinvention went far beyond color palettes and floor plans. Davis replaced the entire management team, streamlined many day-to-day branch tasks, and brought in people with retail rather than banking backgrounds. He also reinforced the company's commitment to being a community bank by starting the Connect program--a program in which employees get paid to spend up to 40 hours per year volunteering in local organizations.

The idea behind Connect is to make Umpqua an authentic community bank by getting employees involved in their own neighborhoods. "It just came to me one day, and I said, 'You know, we need to give back to the communities that we serve,'" says Davis. "We can give money till hell freezes over and it doesn't do a whole bunch. I mean, it helps, but I decided that I want our people to donate their time." Earning the title "community bank" is also why many Umpqua stores are quite literally community centers: they host knitting clubs, art shows, yoga classes, or whatever members of the community ask for. >>

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Davis also eschewed the traditional teller role, in which a person is trained to do only the most basic of bank transactions, and established the Universal Associate position instead. Universal Associates can handle basic transactions, but they are also cross-trained and paid commissions so they can educate customers and sell banking products not just in the walk-up portion of the store, but at the customer service counter and the drive-through window as well. It is, after all, the retail way. Just as no retailer would dream of telling a customer to wait or make an appointment to receive basic information about a sweatshirt, washing machine, or television, Davis didn't want customers bouncing from one person to the next just to get information about a mortgage, a CD, or any other banking product.

He also didn't want to treat them the way other banks treated customers. He wanted to wow them, so in 2003 he turned to

FAST FACTS, UMPQUA BANK:

Parent Company Name: Umpqua Holdings Corporation

Ticker Symbol: UMPQ

Subsidiaries: Umpqua Bank; Strand, Atkinson, Williams & York (brokerage)

Total Assets, June 30: \$8.346 billion

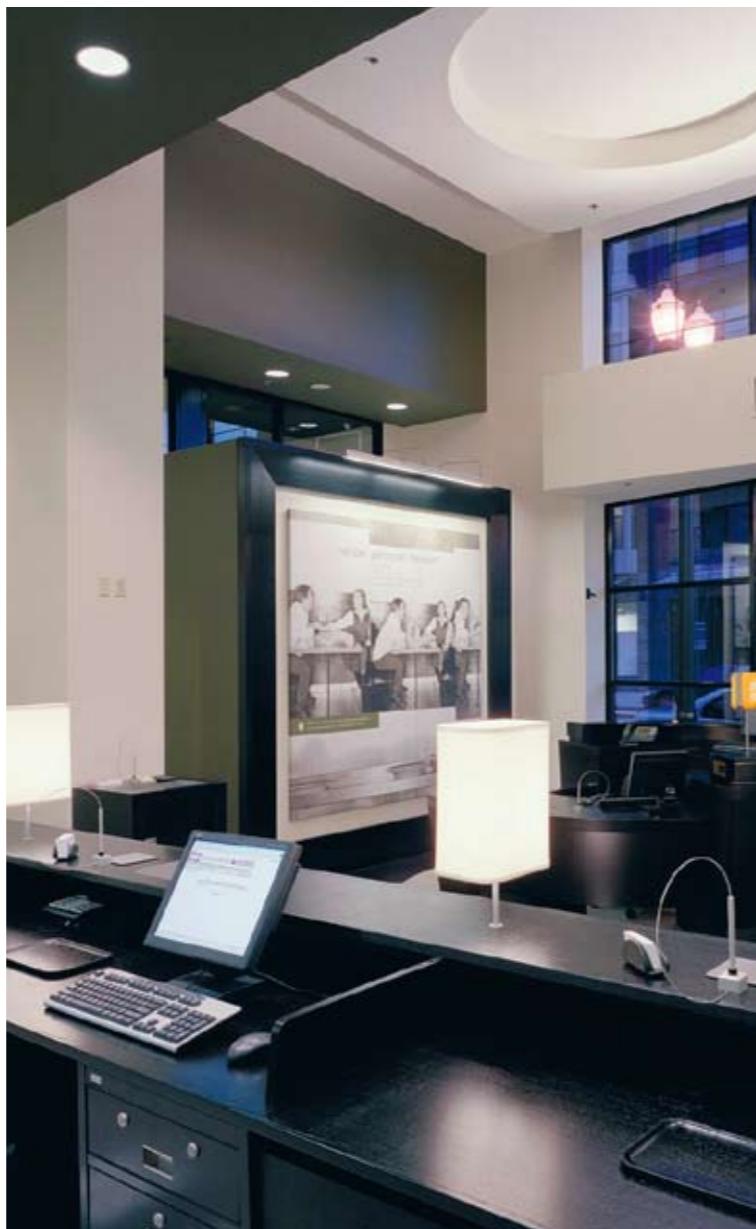
Companies Acquired Since 1999: 11



Ritz-Carlton, a high-end hotel chain known for its meticulous attention to detail. The company, which also runs a leadership center, now hosts classes and regional meetings to teach every single Umpqua employee the secrets of providing supreme customer service. The goal is to give customers a memorable experience every time they walk into an Umpqua store. "Ritz-Carlton cannot teach us how to be better bankers, but they teach us how to treat people and how to deal with people in tough situations," says Davis.

Looking Ahead

Make no mistake: Davis understands that no matter what color the chairs are or what the employees are called, Umpqua still has to be an outstanding bank. "I knew at the very beginning, before I made all these changes, that we had to be good at the basics of banking. We had to be good. I mean, we're regulated; we've got the world looking over our shoulder," he says.



And banking is an especially tough business to be in these days. Earnings are down industry-wide, and net charge-offs are the highest they've been since 1991. Umpqua is facing its share of these challenges. Its \$40.3 million provision for loan and lease losses in the first six months of 2008 is more than eleven times higher than the \$3.5 million it recorded during the same period in 2007. The company missed second quarter earnings estimates by \$0.03 per share, and 78% of its nonperforming loans, many of which are real-estate loans, are to borrowers in California, where the real estate market is particularly bad.

The great irony here, of course, is that Umpqua's use of sleek, modern, retail design has been used to restore one of the oldest, most revered banking strategies there is: the face-to-face relationship. "If you want to be effective, you have to build a value proposition that allows you to compete with more than just interest rates. In this environment, banks are finding out, if that's the one thing you have to compete with, you're dead," says Davis.

So far his theory seems to be correct. The advent of online banking has made the cost of switching so low, in fact, that customer service is now a primary competitive differentiator among banks—and Ray Davis's retail plan is positioned to capitalize on that. Since June 30, Umpqua shares are up over 30% in what is otherwise regarded as a dismal market for financial stocks. He explains it all this way: "I think design is in everything. If you don't understand design, and you compete against me, I am going to kick your butt." <<

IS 99.9 PERCENT QUALITY SERVICE?

To help people think about the impact of mind-sets like "That's good enough," ask participants what quality level, expressed as a percentage of total items produced, they would accept if they were placed in charge of a product line or service—90 percent to 99 percent. Then indicate that some contemporary firms have sought to hold their reject rates down to just 1/10th of 1 percent (99.9 percent quality)! Ask them if they think 99.9 percent quality is adequate. Read the following statistics:

IF 99.9 PERCENT IS GOOD ENOUGH, THEN . . .

- 12 newborns will be given to the wrong parents daily.
- 114,500 mismatched pairs of shoes will be shipped each year.
- 18,322 pieces of mail will be mishandled every hour.
- 2,000,000 documents will be lost by the IRS this year.
- 2.5 million books will be shipped with the wrong covers.
- 315 entries in your dictionary will be misspelled.
- 20,000 incorrect drug prescriptions will be written this year.

Would you still be satisfied with 99.9 percent quality? Should our customers be satisfied with that level?

* From *Leading for Growth: How Umpqua Bank Got Cool and Created a Culture of Greatness*, by Ray Davis and Alan Shrader (Wiley & Sons, 2007).