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Case Study: Pinnacle Financial Partners

If You Could Make It Up

I've always maintained that the coolest thing about business is that it is a wildly creative endeavor, or can be, if you do it right. Every day we get to go back out there into the marketplace and just make it up. We can do what we do in any way we choose, and the market will tell us whether or not it worked.

So if you could make up any business you wanted, from scratch, and build it from the ground up in any way you want, what would it look like? Terry Turner did just that. This is the story of what it looked like.

Beyond a Pound of Nails

I do a lot of work in the financial services industry, and it's pretty much a commodity business the way most of the players do it. They have products that look the same, have offices that look the same, have ads that look the same ("We're part of your community!"), and have people who act the same. The biggest challenge for banks is to get beyond commodity and find meaningful, sustainable, and hard-to-replicate ways to differentiate from the competition. In lieu of differentiating, they end up being driven almost totally by price. To most bank customers, it's like buying a pound of nails. A pound of nails is a pound of nails no matter where you buy it, and the only difference is price. Terry Turner decided to start a bank, and to transcend the "pound of nails" commodity label in everything that the bank would do.

There's Another Way to Play This Game

Terry Turner had been with a big regional bank for 17 years, and had quite a successful run. But as mergers and acquisitions swallowed up the regional banks, Terry saw an opportunity to do things differently. He felt that too often client services deteriorated at the expense of a bank's inward focus to

consolidate. He did research, considered the possibilities, and incorporated Pinnacle Financial Partners in February 2000. Terry decided to play the banking game according to a new set of rules.

The basic strategy was to target small businesses and their owners, which was just about the whole business market in Nashville, Tennessee, home of Pinnacle. The other target was affluent households with \$250,000 or more in investable assets. This extremely attractive market was most definitely in the crosshairs of the competition, so Pinnacle had to create distinct and strong differentiators if it was to succeed.

The foundation of the strategy was, and is, people. Terry hired experienced professionals with large client followings away from other area banks, believing that many, if not most, of their clients would move with them. Associates at Pinnacle have an average of 24 years' experience as bankers or brokers in the Nashville market. Most of them hold securities licenses, financial planning certificates, or insurance licenses. Their financial skills and wisdom run deep. They know what they're doing. As Terry puts it, "Pinnacle simply will not entrust its valuable clients to trainees." The strategy worked. Hire the best people you can, and it will pay off.

The Pinnacle approach is a very people centric one. It takes an unwavering focus and commitment of leadership to make it work. Is it worth the effort? One hundred percent of the respondents to Pinnacle's client service survey say Pinnacle is recognizably better than its competitors. Additionally, Pinnacle has been recognized by the Nashville Business Journal as the "Best Place to Work in Nashville" among mid-sized companies.

The Differences

I asked Terry Turner to talk about what makes Pinnacle different.

Calloway: How important is it to Pinnacle's success that you have such a clearly defined target market?

Turner: Pinnacle's target clients include affluent consumers and owner-managed businesses. To give you a little more insight into how we define those targets, by owner-managed businesses, we mean businesses other than public companies. Nashville is predominantly a small business market. There are roughly 30,000 businesses located in the Nashville area. Of those, 29,700 businesses have sales less than \$25 million. So Pinnacle focuses on and has the capacity to bank 99 percent of the businesses in Nashville. Regarding affluent consumers, we define affluent consumers as those households with investable personal assets greater than \$250,000. At over 40 thousand households, this is a fairly large segment of the total MSA households.

Calloway: Okay, so you've got this extremely attractive target market that by definition is exactly who your competition is after. Most people see banks as being pretty much the same. How do you differentiate?

Turner: Pinnacle offers distinctive service and effective advice that's hard to obtain from big banks. The distinctive service and effective advice take a lot of different forms.

We have friendly professionals who know your name and financial situation, and these individuals will be there the next time you come in. Pinnacle's annual associate retention rate is 96 percent versus only 65 percent to 75 percent at the large regional banks in our market.

Availability and knowledge of decision makers is another clear advantage. Most clients know or have access to Pinnacle's executive management. Most clients find it distinctive to visit directly with the folks who have the capacity to commit the legal lending limit of the bank, as opposed to never speaking with important decision makers in another city, as is the case with a lot of the bigger banks.

Calloway: You're up against big banks that have locations everywhere. You've got a handful of offices. With convenience being a top-of-mind feature that bank customers want, how can you effectively compete?

Turner: We've got a courier deposit pick-up system, so that many clients never have to even come to the bank to make a deposit. This has put Pinnacle in the position of saying that we are more convenient than your current bank, even if you bank at a branch next door.

Calloway: In terms of what has come to be expected, like ATMs and online banking, what do you do that the other banks either can't or aren't willing to do?

Turner: Our customers get unlimited usage of virtually any ATM in the world with no surcharge fee, as opposed to being limited to the machines of one's own bank to avoid surcharges.

We've got a state-of-the-art online banking system that includes things like front and back images of checks that have paid against the account at anytime during the life of the account. Many large regional banks provide no check images online. The few that do are generally limited to the front of the check only. And all that I am familiar with limit information to the current month or year. None other than us offer unlimited access for the life of the account.

People—People—People

For all of the techno-coolness of showing images of checks online, it's not technology that Pinnacle is counting on to keep them on a very fast track of growth. It's the people. Repeat after me: "It's the people." The cornerstone of Pinnacle's success is its unique approach to managing and leveraging the asset of people. For those of you who find that the "people factor" in business is the most difficult to get a handle on, read and learn from what Pinnacle has done.

Pinnacle's mission, values, and vision were created by the firm's initial associates before it even opened for business. And, much like employees for

Tractor Supply Company, the primary case study in my previous book *Becoming a Category of One*, new associates go through a three-day training and orientation process primarily done by the CEO.

Many companies struggle with the issue of employee commitment, but Pinnacle is totally on top of the critically important Driver of create and sustain momentum, and it starts from an associate's first day on the job. The key is that, early on, you focus on the point of the job, and not just the task. This also ties into the Driver of big picture outcome from an internal perspective. Employees who see how they fit into the company's vision and mission in a big picture way are more likely to be motivated and committed.

Another unique aspect of Pinnacle's hiring is that members of the Leadership Team hire the associates that they need to achieve their plan. In other words, they are not reliant on a Human Resources Department. Pinnacle does not take applications. They generally do not hire people who send them a resume. Their view is that those people are usually unhappy or unsuccessful where they are and, consequently, don't really fit the Pinnacle hiring profile. For critical hires, the CEO typically takes the lead in recruitment.

Pinnacle begins to marry the Drivers of create and sustain momentum and big picture outcome during the recruitment process. Terry Turner says that they spend a lot of time ensuring that potential associates understand key differences between Pinnacle and other large regional banks from which the potential associates are likely coming. Critical distinctions include that there is a philosophical fit and that the recruit actually "buys-in" to some basic tenets, including the fact that Pinnacle is a values-driven organization. The recruit will understand that Pinnacle cares deeply about and will measure individual performance, but that they care more about team performance. Potential associates will know that their monetary incentives are a function of how well the firm does, not how well the individual does.

Once a new associate comes on board with Pinnacle, an ongoing and never ending process of engagement works to reinforce all Five Drivers:

1. Create and sustain momentum.
2. Develop habitual dependability.
3. Continuous connection.
4. Big picture outcome.
5. Engage, enchant, and enthrall.

Pinnacle's ongoing associate engagement process includes:

- Three-day orientation conducted by the CEO that includes exercises to enable associates to buy in to the firm's mission, vision, values, and so on as well as physical team-building exercises at the YMCA.
- Monthly meetings with all associates to review the firm's performance against its targets and BHAGs (Big Hairy Audacious Goals).
- Environment of independence and autonomy that is easily facilitated by hiring only experienced, successful associates.

- Quarterly “listening sessions” by the CEO to gather feedback and solicit suggestions.
- Book Clubs that are available to all associates conducted by the CEO at his home. Books that hold some applicability to Pinnacle are discussed and then a meal is served. Approximately 75 percent of associates volunteer to participate.
- Annual Work Environment Survey in which 100 percent of associates provide feedback on the work environment. All unedited results are made available to associates along with Leadership Team responses.
- Frequent community projects such as volunteering for Special Olympics, building an affordable home for an individual with Down’s syndrome, and so on.
- Regularly scheduled family events such as spring cocktail party at the CEO’s house, family summer picnic at the riverfront home of a member of the Leadership Team, Christmas party at the Chairman’s house, and so on.
- Frequent celebrations for major milestones and anniversaries, and so on.
- Annual cash incentives, based on the firm’s performance, for all associates.
- Annual stock option grant for all associates.

Recognition and rewarding of associates’ achievements also plays a critically important role in employee satisfaction and retention. Recognition and reward activities include:

- Simple thank you notes, e-mails, gift certificates, recognition in front of peers, and so on.
- At each monthly “all associate” meeting, several associates are recognized in front of the group for outstanding performance or living out the Pinnacle values in a demonstrable way.
- The basic annual cash incentive system in which all associates participate is primarily based on the firm’s performance against profitability targets. However, it is not a fixed amount. The farther the firm exceeds the profitability target, the higher the incentive payout. Additionally, Leadership Team members have the discretion to award up to 5 percent of someone’s base pay for extraordinary individual performance.

A sampling of comments from Pinnacle’s Annual Work Environment Survey testifies to the level of employee satisfaction. Having seen all of the comments that employees submitted, let me assure you that there was the occasional observation about something with which an associate was less than satisfied. The comments are unedited and are available to all associates. But the vast majority of comments were along the lines of the following:

- So far my employment experience has been fantastic!
- Moving to Pinnacle was the best decision that I have made regarding my career.
- Pinnacle is a great place to work!

- Continues to be a good place to work. Staffing continues to improve. Needs to remain a focus as profits allow.
- I like to be on a winning team. I hope we keep the client first as we grow larger. The people are top notch. Please continue to only hire the best.
- Pinnacle is an awesome place to work. . . . It is wonderful to work with and be surrounded by people who have the same work ethic and who honestly put customers first. . . . Pinnacle also cares about employees that in turn creates a much healthier work environment.
- I want to make sure we always keep a team focus in our Small Business area. I think that with the new hires we have planned, we keep the values in mind. Yes, we have to have a book of business but integrity, responsibility, and morals go a long way.

Bottom Line

So, if you could make up a business any way you wanted, and you did it like Terry Turner and his team at Pinnacle, what would it look like beyond the warm, fuzzy stories? What's the bottom line? So far, it's been an amazing ride.

Pinnacle's growth has been unusual as evidenced by the fact that of the 181 commercial banks chartered in the United States in the year 2000, Pinnacle is the largest and fastest growing. Pinnacle has become the largest locally owned bank in Nashville.

The company's stock performance has been consistently exceptional. Here are a few recent comments of financial services industry analysts about Pinnacle's market position and future prospects:

- "Balance sheet growth was nothing short of robust, in our opinion, as Pinnacle's client-oriented business model continues to dominate Nashville. There is no doubt in our minds that Pinnacle's management team is building an extremely valuable core community banking franchise."
- "PNFP is a fast-growing, urban community bank in the early stages of its growth cycle that is building one of the premier small-cap banking stories in the southeast. Given management's extensive market knowledge, deep customer contact base, and scarcity of local community-based bank holding companies (BHCs); we believe PNFP should continue to deliver above-average growth rates over the foreseeable future."
- "PNFP continues to gain market share by investing in human capital and remaining sharply focused on serving its targeted customer base."

It comes down to this: In what is generally considered by the market to be a commodity business, Pinnacle has distinguished itself with the execution of practices and strategies that are available to any business anywhere. We don't get hurt by what we don't know. We get hurt by what we know but don't do. Pinnacle does what works.