

PRE-MERGER PREP & POST-MERGER PERFECTION: KEYS TO SUCCESSFUL COMMUNITY BANK MERGERS AND ACQUISITION

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Kafafian Group is an associate member of PACB

Over the past two years, community bankers across Pennsylvania have grappled with a wave of headwinds, including elevated interest rates, margin compression, and intense competition for deposits. While these challenges are shared industry-wide, some bankers have recognized that opportunity lies beneath the chaos. While M&A activity has been limited, the right strategic partnership opportunities resulting in long-term growth and increased profitability are out there. The key is to assess your institution's culture, capacity, strengths and needs, and identify a partner who can fill those needs with minimal risk to your culture.

As community bankers, it is not just about having sufficient earnings and capital to take on additional branches, staff, and customers; it's about recognizing opportunities and making the most of them. The landscape is evolving, and there's a realization that growth for growth's sake is not enough.

As a 30-year banker who has been on one side or the other of nine transactions, I have had the unique opportunity to experience varying levels of success post-merger and wanted to share just a few thoughts as we look ahead to opportunities for the remainder of 2024 and beyond.

SEIZING OPPORTUNITIES IN A SHIFTING LANDSCAPE: MOVING FROM HEADWINDS TO TAILWINDS

This evolving financial landscape requires a proactive approach for community banks to not only survive but thrive. The economic pressures mentioned above are placing immense strain on underperforming institutions, creating a wave of potential consolidation and a unique opportunity for well-positioned community banks to acquire strategic assets,

expand their reach, and diversify their offerings. Assuming your own strength in these areas, look for banks struggling with liquidity, regulatory or technology burdens, or talent shortages – their challenges may be your opportunity.

BEYOND BRICKS AND MORTAR: DIVERSIFYING FOR RESILIENCE

Gone are the days of M&A solely focused on brick-and-mortar expansion, community bankers must broaden their horizons. Look beyond geography and discover the benefits of strategic partnerships that bring complementary strengths to the table. For example, teaming up with a partner with expertise in areas where you have gaps, such as wealth management, digital banking, or niche lending. This not only fills your product portfolio but also injects fresh talent and perspectives into your organization.

TURNING EFFICIENCY INTO A COMPETITIVE ADVANTAGE

In today's fiercely competitive environment, operational efficiency is not just a buzzword; it's a strategic imperative. Often, this presents a challenge for community banks as legacy processes can be siloed and manual, hindering information flow and slowing down operations. Analyze and optimize your internal processes, leveraging technology to streamline workflows, enhance customer experiences, and reduce costs. Automation, cloud-based systems, and data-driven decision making are critical assets. Remember, a leaner, more efficient bank is not only more profitable but a more attractive merger partner capable of taking on additional transaction opportunities. TKG specializes in process improvement and has helped hundreds of banks nationwide streamline their processes to improve efficiency, customer and employee experience and financial performance pre- and post-merger.

STRATEGIC TALENT MANAGEMENT

The success of any bank lies in its people. Objectively evaluate your current talent pool and identify any gaps that need to be filled to support your strategic objectives. Prioritize recruiting and retaining top talent with diverse skill sets, not just in traditional roles but also in areas like technology, data analytics, and customer experience.

When considering potential merger partners, remember that talent acquisition extends beyond filling gaps. Often, successful mergers address critical succession planning challenges to create a stronger post-merger environment. Ideal partners not only have complementary skills, but are a cultural fit and align with your values. Identify individuals who demonstrate high potential, adaptability, and a commitment to learning and growth. Invest in due diligence that assesses not just skill sets but also team dynamics, leadership potential, succession opportunities and the overall morale of the target bank's workforce. Remember, acquiring the right talent can be your biggest asset in a merger, ensuring a smooth transition and unlocking the full potential of the combined entity.


ADAPTABILITY IN A DIGITAL AGE

The digital transformation of banking is unstoppable, and community banks must embrace technology to stay relevant. By prioritizing user-friendly mobile apps, online account management tools, and data-driven insights, you not only attract younger generations but also demonstrate your commitment to innovation and adaptability. We all understand the concept of "know your customer," but you must also know your products. If you are not analyzing your data to understand the profitability of your branches, loan officers, products, and customers, you are at a competitive disadvantage. Having a sound grasp of this data and how to attain it and make it part of your culture makes you a knowledgeable acquirer to appreciate what you are buying and the opportunity to make the most of it.

EMBRACE THE JOURNEY, SHAPE THE FUTURE

The shifting financial landscape presents both challenges and opportunities for community banks across the commonwealth. By understanding the key factors driving consolidation, prioritizing strategic partnerships, and investing in your people and technology, you can not only survive but thrive in this dynamic environment. Remember, M&A is not just about acquiring assets, it's about seizing opportunities to build a stronger, more resilient institution that serves your community and thrives well into the future. Take the first step, embrace the journey, and shape your bank's destiny. Interested in exploring your opportunities? Let's talk.

LEVERAGING TKG'S EXPERTISE

If you're considering a merger or acquisition, TKG can be your trusted partner. We offer a comprehensive suite of services to guide you through the entire process, from financial advisory, planning, due diligence and negotiation to pre and post-merger process improvement and integration. Let TKG help you navigate the complexities of M&A and unlock your bank's full potential. 



Kafafian Group Managing Director Chris Jacobsen is a seasoned Pennsylvania community banker and turnaround specialist with over three decades of experience in the industry. Serving in key roles, including chief operating officer, chief retail officer and SVP of business strategy, he has played a pivotal role in developing sales cultures that have achieved notable milestones. He can be reached via email at cjacobsen@kafafiagroup.com or by phone at 973-299-0300, extension 109.