

# The Whole Enchilada: Attracting the Full Small Business Relationship

By Nicholas T. Miller and Ginger Siegel

“Mixed-household” relationships leverage the entire bank to deliver significant increases in profits and balance-sheet growth.

Many bank senior executives miss the power of small business relationships to drive broader product sales and significant balance-sheet and profit growth. Research conducted by New York-based Novantas indicates that small business relationship profitability can more than double when banks capture the full mixed household: business + employees + personal. When considering the full impact of mixed households, small business relationships can drive 40 percent to 60 percent of retail bank profits.

But many of these opportunities are lost or missed. Twenty percent to 40 percent of a bank’s nominally consumer households are connected to small business relationships that bank elsewhere. In 50 percent or more of bank small business relationships, the owners and employees bank elsewhere.

## Who Are We Missing?

Dave is 40 years old. He worked in a major corporation until he was 35 and then founded his business five years ago, an engineering consulting practice. Sales are \$1.5 million; the business is profitable and growing steadily. Dave has seven employees and up to six subcontractors. He is married to Mary. They have two children, ages five and seven. Mary works for a successful Internet services company. Mary’s mother lives by herself in a home she owns; there is no mortgage on the property.

Dave and Mary and Grandma have bank accounts at three different banks; their retirement accounts with four different mutual funds companies; their insurance policies from three different

agencies; their car loans from AAA; and their credit cards from three different banks or credit card companies.

The banks where Dave and Mary have their personal accounts do not know Dave has a business. At the bank Dave uses for his business, nobody knows anything about Dave’s family.

This business + personal + employee household could mean \$24,000 or more to a financial institution (Exhibit 1). This is a small business segment manager’s nightmare. It could also be the retail banking head’s nightmare.

## What Went Wrong?

On the surface, it appears that the banks have done the right things:

- They have small business banking groups that call on companies of Dave’s size up to \$5 million in sales.
- The small business bankers and branch managers refer leads to each other.
- They have deployed their branches and business bankers in areas that are target-rich for small businesses.
- They’ve trained their branch managers and platform people to profile customers, both for personal and business purposes.

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*Exhibit 1. Dave's Mixed Household: Value to the Bank*

<b>Business</b>
<b>Loans</b>
<ul style="list-style-type: none"> <li>• Mortgage on office condo: outstanding balance, \$250,000; interest rate, 5.75 percent</li> <li>• Line of credit (unsecured, guaranteed by owner): availability, \$100,000; interest rate, prime +2 percent; average balance during the year, \$10,000</li> <li>• Overdraft line of credit on checking account: availability, \$10,000; interest rate, 15-percent APR; average annual interest paid to the bank, \$200</li> </ul>
<b>Deposits</b>
<ul style="list-style-type: none"> <li>• Operating account: average balances, \$50,000</li> <li>• Payroll account: average balances, \$5,000</li> <li>• Money market account: average balances, \$100,000</li> <li>• Employee checking accounts: five—average balances, \$30,000</li> </ul>
<b>Investments</b>
<ul style="list-style-type: none"> <li>• Retirement accounts (simple IRA): balance, \$70,000</li> </ul>
<b>Bank Services</b>
<ul style="list-style-type: none"> <li>• Payroll service including direct deposit: average monthly fees, \$100</li> <li>• Wire transfer services: one wire a month, average, \$10,000, \$40 per month</li> <li>• Business credit card: annual fee, \$150</li> <li>• Online banking services: annual fee, \$0</li> </ul>
<b>Other Financial Services</b>
<ul style="list-style-type: none"> <li>• Insurance policies: various types including errors and omissions, disability, long-term care, liability and property and casualty: annual premiums, \$20,000</li> </ul>
<b>Family</b>
<b>Loans</b>
<ul style="list-style-type: none"> <li>• Mortgage on primary residence: outstanding balance, \$350,000; interest rate, 5.5 percent</li> <li>• Automobile loans, two cars: outstanding balance, \$15,000; interest rate, 6.75 percent</li> </ul>
<b>Deposits</b>
<ul style="list-style-type: none"> <li>• Personal checking accounts, Dave and Mary: average balances, \$25,000</li> <li>• Personal checking account, Mary's mother: average balance, \$185,000</li> <li>• Personal savings account, Mary's mother: \$100,000</li> <li>• Personal investments, Mary's mother: \$500,000</li> <li>• Personal savings accounts, Dave and Mary: average balances, \$50,000</li> <li>• Savings accounts, two children: average balances, \$10,000</li> </ul>
<b>Investments</b>
<ul style="list-style-type: none"> <li>• Retirement accounts: balance, \$500,000</li> </ul>
<b>Bank Services</b>
<ul style="list-style-type: none"> <li>• Personal credit cards (two each for Dave and Mary, one for Mary's mother): annual fees, \$150; finance charges, \$200</li> </ul>
<b>Other Financial Services</b>
<ul style="list-style-type: none"> <li>• Health savings account: average balances, \$7,000</li> <li>• Property insurance, primary residence: annual premium, \$1,000</li> <li>• Automobile insurance, two cars: annual premium, \$1,500</li> <li>• Life insurance, Dave and Mary, death benefits total \$1 million: annual premium, \$3,000</li> </ul>
<b>Margin to the Bank</b>
Approximately \$24,000 (assuming the banks retain the mortgages)

- They have good product sets and attractive loan and deposit rates.

- They run blitzes and product promotions several times a year.

All seems good until you look at the low account penetration and wide dispersion of revenue from the accounts. What went wrong?

The small business and retail leaders might say: "Failure to execute the bank's sales process at the point of sale." Our view: "Yes, but more important: separation." Separate plans, value propositions, product sets, sales teams, goals, compensation programs, human resources (HR) policies and information systems.

The path to attracting, expanding and retaining mixed small business households and capturing missed revenue and product sales involves six integration issues:

- Strategy
- Information
- Staffing
- Scorecards and performance management
- Service and sales processes
- Training

## Strategy

Banks have no shortage of strategies: deposit strategies, loan strategies, acquisition strategies, pricing strategies. The small business leaders and retail leaders at Dave's business bank believe they have a "mixed-household strategy"—they encourage their sales teams to sell both business and personal accounts to their clients—and they don't. They have not integrated their retail

and small business strategies to systematically and proactively develop the full business + personal + employees household relationships. They have an undifferentiated blend of separate product, pricing, retail and small business strategies, and they mistake sales execution at point of sale for strategy. As a result, they are reactive. They react to competitors, they react to customers, and they react to prospects.

The first step to integrating the retail and small business strategies to attract a larger share of mixed-household wallets is focus—defining an integrated target. Within the last few years, small business banking leaders have started to focus more attention on specific business types with significant deposits (Exhibit 2), but the target customer for which we’re advocating isn’t the business; it’s the business + personal + employee households.

The second step is to define a compelling value proposition for business + personal + employee relationships.

### *Exhibit 2. Examples of Deposit-Rich Emphasis Industries Chosen as Small Business Strategic Focus*

**Bank A (superregional bank):** Ten different types of small businesses including law practices, CPA practices, health-care practices, insurance brokers, real estate brokers, *etc.*

**Bank B (regional bank):** Three major groupings: property managers, private schools and health-care providers.

**Bank C (regional bank):** Three major groupings: manufacturers and distributors, professional services companies and other services companies.

A clear, strong business + personal + employee value proposition answers the question, “Why should our family + employees + business bank at your bank together versus separately at other banks?” For example, “financial advice for all” (business, personal, employees) is clear and strong. “Any time/anywhere” convenience and access for business, personal and employees is clear and strong.

Very few banks and bankers communicate compelling answers to this question. Their answers frequently boil down to, “We are trying to do all of those things. Our branches are close, our alternative channels are linked, our products are great, and our service is the best.”

All could be true. However, while convenience (multichannel electronic access or short driving distance to a branch) and service are still the most important influences in choice of bank for small

businesses and consumers, business owners, their families and their employees frequently do not live or shop in the trading areas of branches that might serve their businesses. The question becomes “convenience for whom” and “at what time of day or day of week?” Similarly, service for whom and under what conditions?

Translating Michael Treacy and Fred Wiersema’s book, *THE DISCIPLINE OF MARKET LEADERS*, loosely, retail and small business organizations could align around three fundamental value propositions to create sustainable value propositions to attract, expand and retain mixed households:

- Low prices and low hassle (example: ING Direct)
- Know us and take care of us better than anyone else (example: Wachovia)
- Give us the latest and greatest products and technology (example: Wells Fargo)

Of the three, “know us and take care of us,” a true relationship focus matched with enough “low prices and low hassle” and “latest and greatest product” to be acceptable, seems to be the best strategy for integrating dispersed business + personal + employee households.

While there are many small business owners who choose banks based on price (“I don’t want to pay any fees”) or latest and greatest products (“I want the latest mobile technology”), our clients’ experiences suggest that the majority of small business owners want to be recognized and afforded the attention they feel they deserve, based on the value they can bring to their financial services providers and the true value that the financial service providers can bring to them.

Also, the business and family financial challenges are frequently not solved with “do-it-yourself” or “latest, greatest product” approaches. Conversation, expertise and a focus on advice and guidance are needed, frequently over a period of time, to draw out and address the business and personal financial challenges.

Once small business mixed-household target clients and value propositions are in place, five additional elements must be aligned to deliver the value propositions and attract and retain the mixed

households: information, staffing, scorecards and performance management, service and sales processes and training.

### Information

We are astounded by the number of banks whose branch staff members or small business bankers cannot answer these questions:

- Which of their consumer customers own small businesses?
- Which of their small business customers have their personal accounts at the bank?

Even in the banks whose staff members have access to that information, it is frequently difficult to obtain, requiring time-consuming queries into two, three, even as many as five different bank systems.

Information is the foundation of a mixed-household strategy. Branch and small business banking staff must be able to see all elements of existing small business and consumer relationships across all bank departments so they can see gaps (for example, consumer-only business owners, business-only relationships, loan-only business relationships) they could address in future relationship development efforts.

Granted, developing integrated systems or report generators that draw information from multiple bank systems is both expensive and time-consuming. Simple math, however, suggests that the revenue lift from mixed small business households like Dave and Mary's might pay for the investment, even with relatively modest assumptions: 50 branches × 20 small business households per branch × \$2,000 incremental revenue per household = \$2,000,000 per year. A bank can buy or patch a lot of software for that kind of money, with money left over for other purposes.

### Staffing

Staffing must directly support the bank's mixed-household strategy and value proposition. The wrong people can derail strategy execution at the point of sale.

#### *Existing Staff*

Once business leaders choose a mixed-household strategy, they more or less have to train existing

team members and give them a chance to make it with the new strategy. Concurrently, business leaders should assess existing staff in a short period of time, no more than 120 days, to determine whether they can execute against the strategy or would be happier in a different area of the bank.

#### *New Hires*

Banks typically hire consumer and small business sales team members separately.

- **Consumer.** Branch managers and staff, even in the most richly populated small business environments, are hired largely for their abilities to manage operations environments or transactional consumer sales environments.
- **Small business.** Small business bankers are hired for some combination of their lending knowledge, business experience or aggressive sales personalities.

An alternative is to hire and develop people specifically for the mixed-household role, working in branches with other team members who focus on consumers and early stage small businesses and mixed households.

Says Les Dinkin, managing director and business banking practice director at Novantas, LLC, "Since banks want to grow deposits and since business owners' personal deposits and other relationships are two times to five times larger than average consumer relationships, we're seeing a number of banks investing in mixed household programs at the heart of which are branch staff specifically focused to attract, deepen, and retain total business + owner + employee households."<sup>1</sup>

Foresquare Bank, for example, uses a selection methodology for small business oriented branch managers that is driven by the bank's intention that branch managers be the primary contact between the bank and small businesses with sales of up to \$3 million and sell business, employee and personal relationships. The bank uses a blended strategy of interviews, testing and simulations to choose candidates for branch management positions.

This rigor is unusual in the banking industry but is typical of service-oriented companies in the travel, entertainment and professional services environments that are serious about the fit, quality and qualities of the people they put in front of their customers.

### Scorecards and Performance Management

Scorecards and performance management criteria translate strategy by communicating “what’s important.” If a bank’s strategy is to attract, expand and retain targeted mixed households, performance metrics must align with that goal.

The challenge is this: Banks typically don’t measure business and customers across the entire organization; they measure households in silos. Line-of-business goals and/or individual incentive compensation goals and performance management scorecards are typically siloed—small business is measured separately from retail—rather than integrated.

- If the branch scorecard is biased heavily toward numbers of consumer products sold or toward retail deposit growth, branch staff interest in small business products will be small *even though* they could make their consumer goals by selling to the 20 percent to 40 percent of their consumer customers, like Dave, who are also small business owners, plus their employees and family members.
- If the small business bankers’ scorecards are biased heavily toward business deposit growth, loan growth and referrals of small business products, small business bankers will focus on the business, and perhaps the business + employees, and miss the personal side *even though* capturing the personal and family balances can double the profitability of their small business households.

Bank leaders can redirect branch and small business banker attention in the following ways:

- Establishing small business goals for branch managers that must be met in order for the branch managers to receive any payout on their incentive program
- Establishing mixed-household relationship-penetration goals or consumer product goals for small business bankers that must be met in order to receive any payout on their incentive program
- Measuring and rewarding branch and small business banker performance based on household penetration and profitability in addition to or rather than product counts or balance growth

In addition, bank HR leaders must align performance-review criteria and processes to support the strategy and the incentive program.

### Service and Sales Process

While scorecards tell team members what’s important, the bank’s service and sales process should communicate how to deliver the value proposition at the point of sale.

Fifty-three percent (according to the Executive Conference Board) of customers’ feelings of loyalty to providers are affected by their experience in the sales process. To attract and retain the mixed households that bring the most significant, profitable household relationships to the bank, banks must pay attention to the customer experience that those customers find rewarding and define service and sales processes that deliver that customer experience.

When we ask the retail and small business leaders at Dave’s bank or at most other banks, “What is your sales process?” they describe their customer interaction steps: engage, build rapport, explore, present and follow up.

There are two shortcomings to this view:

1. This is a description of conversation stages, not a sales process. Sales process should define activities from end to end, from first attempts to attract mixed households through the approach and initial sale to on-boarding to ongoing care, retention and expansion.
2. Customer interaction models focus on what is to be done (tasks) with little attention to how and how well.

If we are thinking about a customer experience, hoping that our salespeople will earn the trust, respect and patience of business owners like Dave, the sales process and the sales management disciplines must include quality standards that define how and how well the activities should be done.

Example 1 in Exhibit 3 portrays a minimum, typical set of task-oriented standards. Example 2 in Exhibit 3 presents a more richly developed set of task and quality standards.

### Service and Sales Management

The next element of attracting, expanding and retaining mixed-household relationships is day-to-day management of sales process and customer experience according to process and quality standards.

Improving execution and delivery of the customer experience and value proposition requires informa-

### Exhibit 3. How Task and Quality Standards Differ from Task Standards

<b>Requirement:</b> Identify important personal financial goals. <i>Asks customer, "Do you have any financial goals for yourself or your family?"</i>
<b>Task Standards</b>
<ul style="list-style-type: none"><li>• Takes written notes</li><li>• Maintains eye contact</li><li>• Asks whether customer wants to:<ul style="list-style-type: none"><li>• Buy or build a house</li><li>• Acquire vehicles</li><li>• Pay for education</li><li>• Save for retirement</li></ul></li></ul>
<b>Task and Quality Standards</b>
<ul style="list-style-type: none"><li>• Takes written notes</li><li>• Maintains eye contact except for brief glances at notes</li><li>• Maintains a warm half-smile, open facial expression</li><li>• Encourages continued disclosure and acknowledges client answers ("yes," "good," "um-hmm")</li><li>• Validates/speaks approvingly about any customer effort to form or communicate goals</li><li>• Asks appropriate follow-up questions including:<ul style="list-style-type: none"><li>• How do you and your family set financial goals?</li><li>• What do you consider your most important family financial goals at this point? (Consider: education, retirement, purchases, freedom)</li><li>• What sorts of concerns do you have about reaching your goals?</li><li>• What steps have you already taken to achieve those goals?</li><li>• Are there any particular questions you have at this point? Are you looking for advice or ideas?</li></ul></li><li>• Challenges or clarifies where goals are not clear or where there are apparent conflicts, gaps or inconsistencies</li><li>• Recaps the goals and asks client to confirm them and make any adjustments</li></ul>

tion and observation and coaching, supported by accountability for producing different results.

#### Information

Sellers and managers need information about sales process and customer experience execution quality. Bank internal information systems are set up largely to measure quantities of products, balances and activities. Branch shops are largely designed to check off completion of activities, *per se*, with less regard to quality and style. Customer satisfaction data is useful, but it's often too general, too late and incomplete; it characterizes the

end result, not the quality of the process that generated that result.

Contrast this with the Ritz-Carlton's approach:

The Ritz-Carlton reports on absolutely everything—from the general morale of the restaurant staff in Bahrain to the number of scuffs on an elevator door in New York. Every day, the company's staff determines whether they're meeting the key success factors—and if not, what needs to change.

Thus, each location and every one of The Ritz-Carlton's more than 38,000 employees turn in a river of quantitative and qualitative data points. Those bits of data, filtered by the requirements of the key success factors, are examined to give the company real-time information that it uses to set and evaluate the business priority measurements that make up the key success factors. It's a feedback loop of current information, starting and ending with the priorities.<sup>2</sup>

In this environment, hotel managers receive almost real-time information about how well they're performing, both quantity and quality, so they can quickly make adjustments and get back on track.

#### Observation and Coaching

Disappointing statistics about the low quality and frequency of branch and small business banker "profiling" conversations with business owners and consumers articulate the coaching and performance gaps that must be filled in order to execute a mixed-household strategy.

Service and sales managers in small business environments, based in the branch or the field, must be accountable for ensuring that their team members execute the mixed-household service and sales process, including deep and thoughtful profiling, at or above minimum quality standards. "Must be accountable" means that the "manager is out-placed or replaced if his or her team does not meet minimum quality standards or if they do not meet minimum expectations for results, however defined."

Coaches must know what the service and sales process is, must be able to demonstrate the process and must be able to teach the process:

- Observing and coaching team members to learn mixed-household sales behaviors and processes
- Observing and coaching team members to execute consistently according to the mixed-household service and sales model
- Coaching team members to change when they don't execute the process or deliver the desired results

Specific expectations for coaching are the first leverage point. Retail and small business leaders must ensure that the quality standards are communicated to the field.

Coaching time is a second leverage point. Banks that redefine roles to ensure time for first- and second-level managers to interpret information, observe and coach will execute better than those that do not.

In our experience, branch managers, retail district managers, regional managers or small business team leaders focus less than 30 percent of their time observing and coaching service and sales behaviors that deliver the customer experience and generate deep mixed-household relationships. As a result, sales team members receive less than two hours of coaching per month per person on how to execute a sales process or deliver the value proposition. Best case, they should receive double that amount or more.

In addition, second-level sales managers are rarely asked to observe and coach first-level managers on their coaching processes and skills. As a result, first-level coaches receive less than six hours per year of "coach coaching" to ensure that they can coach their individual contributor team members to meet or exceed process and quality standards and to achieve target sales results.

Follow-up, the heart of accountability, is the third leverage point. To assure execution, banks will perform better, and faster, if they implement a structured coaching system in which coaches take notes, set expectations for change or follow-up, teach required skill elements, inspect to ensure that change was made, then coach again if additional change is needed. Typically, managers have learned about these coaching concepts in training but structure and disciplined follow-up are not part of their organizations' DNA. As a result, initiatives to change sales focus, process or behaviors fail to deliver expected results and are largely abandoned

within three to six months, replaced by the next program *du jour*.

To execute a disciplined mixed-household strategy, managers must coach to quality and process standards, ensure that team members receive frequent and detailed coaching and assure that managers or coaches follow up to ensure that changes have been made following coaching.

## Training

Training is a critical element in developing mixed-household sales. In addition to required training, such as compliance, the content of the training should address foundations, customer challenges, products and services and service and sales process and skills.

- Foundations:
  - The bank's strategy and value proposition for mixed households (why all should bank with us)
  - The bank's philosophy of working with mixed households and the desired customer experience
- Customer challenges: Business, personal and management challenges that the bank wants to address
- Products and services:
  - How bank products address specific challenges and clusters of challenges
  - How bank products earn money for the bank (from both the bank's perspective and the customers')
- Service and sales process and skills:
  - The bank's mixed-household service and sales process: what, how and how well
  - Service and sales skills, including consultative selling with deep and thoughtful profiling, in order to deliver the desired customer experience and to earn full business + personal + employee relationships

The amount of mixed small business household training should be double or four times the amount that is typically given to branch staff or small business bankers. In a typical year, we find that branch managers or small business bankers will receive less than eight hours of training related to small business challenges; owner challenges; or the process for exploring, attracting and retaining their business. In

some banks, we are aware that branch managers and platform staff receive less than four hours training per year, total, in small business challenges, bank solutions and small business sales processes.

The rate of return on this training can be significant. If a bank invested \$5,000 in training a branch team member to sell to mixed households, and the revenue impact were an additional \$500 per year per household, three additional mixed-household expansions per month at \$500 revenue brings an additional \$18,000 in annualized revenue to the branch.

### Mixed Households Can Drive Growth and Profitability

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Leverage small business mixed households to drive balance-sheet growth and profitability across the entire bank: consumer banking, small business banking, cash management, investments, trust, wealth management, financial planning, insurance, mortgages and more. The game is “share”: attracting and consolidating all elements of the mixed-household relationship away from the many banks that now serve them to one bank—yours. When considering the full impact of mixed households, small business relationships can drive 40 percent to 60 percent of retail bank profits.

Once a bank chooses to focus on mixed households, the path to capturing the business + personal + employee revenue begins with development of an integrated and integrating strategy:

- Define the juicy target—“mixed households” meeting certain characteristics—rather than setting separate goals in silos for small business, consumer and other services.
- Develop a value proposition that attracts all three elements of the relationship, clearly stating why all should bank at one bank together rather than at multiple banks separately.

Once target mixed households and value propositions are chosen and defined clearly, align other elements of the organization to deliver the strategy to the target mixed households:

- **Information.** Provide business + personal + employee household information so branch staff and small business bankers can see the gaps.
- **Staffing.** Hire or deploy people to focus specifically on mixed households. Use fact-based, validated methods (for example, assessment profiling, simulations) in addition to interviews to select the right people qualities to serve mixed households.
- **Incentives.** Tilt scorecards and performance management to reward mixed-household attraction, expansion and retention more than individual product goals or balance-sheet goals. Measure the customer across the full organization rather than separately in silos.
- **Service and sales processes.** Translate customer experience into service and sales processes and procedures with clear quality standards (how and when activities are done) as well as quantity standards (how many times). Use data about process quality and quantity to direct team members, coach them, teach them and keep the process fresh to ensure that the bank delivers consistently and effectively what strategy defines.
- **Training.** Train deeper (more knowledge of business and personal challenges and how bank products address them) and train more (four times more than is typical).

These are not easy steps, and they are not cheap. However, when we consider that mixed small business households can be worth \$10,000 a year to more than \$24,000 per year to banks that are able to capture most or all mixed-household relationship elements compared with the \$3,000 a year that Dave’s bank sees, the investment in information systems, people, processes and products to attract Dave, business owners like Dave and their families and employees is worth both the investment and the risk.

### Endnotes

- <sup>1</sup> In conversation with the author, August 2009.
- <sup>2</sup> Jennifer Robison, *How the Ritz-Carlton Manages the Mystique*, GALLUP MANAGEMENT J., Dec. 11, 2008, <http://gmj.gallup.com/content/112906/how-ritzcarlton-manages-mystique.aspx#1> (accessed Sept. 3, 2009).

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