Closing the Gap:
Boosting Sales of Corporate Finance/Capital Markets

By Nicholas T. Miller

At many banks, significant investments in capital markets and corporate finance capabilities to create a "one stop shop" have not led to significant increases in opportunities identified by relationship managers. Four important steps can accelerate the process.

With notable exceptions, commercial bank efforts to boost revenue by selling corporate finance and capital markets products to middle market have not met expectation This, despite significant investments in investment banking capabilities, product training, and corporate finance training that have kept corporate finance teachers busy for almost two decades. Why is this, and what can sales team leaders and market managers do?

Two Key Factors Reduced the Growth Rates for Capital Markets Capabilities

While the reasons for under-performance vary bank to bank, there are two universal themes. First, **marketing strategies**. The "service" organization (i.e. the investment banking group) and the field sales force did not mesh. The groups had different objectives and different compensation plans. Many sales people considered the investment bankers arrogant and transactional. The investment bankers considered the relationship managers dim-witted and antiquated. As a result, the two groups could not collaborate to define effective marketing strategies and to exchange the information each group needed to fully take advantage of opportunities.

Second, **sales process**. Bank sales managers took the view: "RMs are already talking to these companies. They can cross sell or refer opportunities for capital markets." The sales managers did not see that customers don't buy capital markets services the same way they buy more traditional bank products. Loans and other bank products have been sold through a "features/benefits/price" conversation. Capital markets products and services must be sold as if they are "professional services," where ideas and professional competence are the primary value.

What will it take to close the gap? While much progress has been made, the most critical elements are

1. better definition of market strategy and sales processes,
2. a new approach to training,
3. more focused sales management , and
4. a recognition and compensation philosophy that, at minimum, does not distract sales people from the task.

Better Definition of Market Strategy and Sales Processes

Market strategy, particularly **target selection for each capital markets capability**, is critical. Specialists and relationship managers must share a common understanding of "what a qualified prospect looks like" for each capital markets product or service. These definitions should be specific, for example: "Manufacturing companies with sales > $50 million who meet criteria for Bbb debt ratings and who are interest rate sensitive." RMs must know these criteria for each of the opportunities they're expected to find. These criteria enable RMs to plan their sales efforts and to forecast prospective business effectively. They also reduce the amount of "noise in the system" from opportunities that don't deserve attention from scarce investment banker resources.

Crisp sales process definitions will help boost the number of opportunities identified and reduce effort expended in sales process. The field sales organizations and product specialists must define (for each product or service):

- sales process steps (from initial conversations through origination to the end of execution) respective roles in the sales process
- hand-off points (as from RM to specialist and back again)
- information requirements for each service (what information RM or specialist passes to the other)
- service standards for response times to inquiries, lead times for presentations, and other sales support activities

These definitions provide a framework for RMs and specialists to work together effectively, each knowing what they can expect from the other and when.

New Approach to Training and Sharing Information

To meet client expectations, bank training must prepare RMs for their roles in the sales processes (which differ by product or capability). Depending on the RMs' roles in opportunity identification and selling, product training and sales training should be modified.

In describing Merrill Lynch's initial attempts to generate additional mergers and acquisition advisory business, Fortune magazine reported: "[Clients] wanted bankers who came to them steeped in knowledge of their industry and full of creative ideas…That was a problem for Merrill's M&A bankers, who were generalists… Many bankers simply didn't know enough about each of the industries to make provocative presentations…" (Fortune Magazine, April 27, 1998, page 138)

Merrill had to make specific decisions around how they were organized and how their bankers were prepared to respond to these client expectations of advisors. The same logic applies in small business, middle market, and large corporate bank-ing. Whether you're offering M&A advice, Treasury Services, mutual funds, or debt financing, product training should be transformed into "customer training" to focus on

- the CEO and CFO **issues** and concerns
- the **problems** that the bank's capabilities solve

- **questions** that will help the RMs assess a customer's goals and circum-stances and draw conclusions about which investment bank capabilities are appropriate and what potential benefit will be created for the customer
- answers to customer questions, including
  - ✓ What does this do (explained in terms normal people can under-stand)?
  - ✓ When does this approach benefit a company like ours?
  - ✓ What are the alternatives?
  - ✓ Who have you done this for?
  - ✓ What will it cost and how long will it take?

Sales training should shift toward a professional services model in which the value comes from the expertise of pro team members, of which the RM is one. Clients want counsel from people who have been down a particular road before. They are looking for advisors who can take a view or a position about mark conditions and other factors. Sales training should prepare RMs to probe these issues deeply and to offer opinions. Reps must be good representatives of the expertise that will later come from the capital markets professionals.

This begins with intimate customer knowledge. Generally speaking, RMs know their customers well at a transactional level – specific needs which the customer has decided to address. Generally, they do not know their customers well at the level needed to identify opportunities or capital market services. Key missing ingredients include:

- customer goals, strategies, policies and market positioning (which provide the context for pro-active opportunity identification)
- ideas and strategies that are in entering discussions and have not moved to the "take action" stage
- variables (such as commodity prices that bring risk into the customer' business

The sales training must also teach the RMs to position the capital markets group's capabilities and begin prescribing sales processes. Often, this will include the ability to describe "success stories" that demonstrate capabilities and market savvy.

Finally, make sure your RMs are receiving and reading information that they will need to discuss in sales calls and conversations over meals:

- Capital markets activity (rates, players, deal structures, etc.) and current trends/ opportunities
- Up to date information about internal processes, players, and methods.

More Focused Sales Management

Sales managers (from line of business head to sales team leader) must decide how their teams will "play the game." Since all product suppliers in the bank are competing for sales force mind-share, the sales managers must set a strategy and priorities for sales force attention. With the basic direction and expectations set, there are several important goals for sales managers:

First Priority: Field Coaching

- Get into the field to **observe calls and to coach…even though you don't have time**. Sales management coaching disciplines drive sales results. If you want to identify more opportunities for capital markets and corporate finance, you have to increase the amount of time and attention you pay to them through your questions and through your time in the field.

  This is particularly true if you want RMs to do more than spot opportunities and toss them over the fence. If you want them to question deeply to reach the pain and the payoffs that will sell capital markets and corporate finance, you have to be there with them, and you have to model it.
- Help the RMs learn to **anticipate customer issues** and present ideas by asking questions about customers' plans and strategies and prompting them to anticipate needs and generate ideas. The main rule here is: You get what you ask about. If you ask about ideas and customer plans, you'll get more of them. If you ask about loan renewals and administrative matters, that's what you'll get.
- Use whatever information you have about products, internal processes, and success stories to **drill and coach** the RMs. To be confident speaking to business owners or senior officers, they have to master the language and the stories. Use sales meetings, time in the car or on the plane, or phone time to ask questions like: "How do you describe our private placement capabilities?"

Second Priority: Planning and Review

- Create good **sales process descriptions and measures** so that you can accurately determine where RMs are working in the sales process. You should be able to say to an RM: "To be successful in your territory with capital markets, you need to identify 50 opportunities, make 30 idea presentations, submit 20 proposals, and close 15 deals with an average fee of $X". This knowledge comes from tracking and studying RM activities so you know, for your market, what the guidelines are.
- Help the RMs **prioritize their accounts** – which accounts should get the "financial advisor" treatment, which match the profiles of companies that would benefit from particular capital markets and corporate finance services.
- Insist on planning – **a 1-year territory business plan and account plans** for the top 5 – 10 customers and 5 – 10 prospects. The planning will (1) help focus the RM's time on accounts most likely to be productive and (2) help the RM think through customer's goals, strategies, policies, and obstacles.
- Review progress toward targets through
  - ✓ **monthly business review meetings** with RMs, to review their short term action items and forecasted business,
  - ✓ **quarterly account reviews**, to revisit their 1-year business plans and all account plans – where are we versus what we'd planned, why, and what do we need to do to close the gap?

A Supportive Recognition and Compensation Plan

The basic test we apply is: "Do no harm." Relationship manager recognition and compensation plans are typically complex because of the large array of products and services available for sale and the impact on a bank's balance sheet and income statement. Establish separate recognition and incentive compensation plans. The recognition plan should kick in for activities that drive sales. The compensation plan should kick in for sales results. Having said that, our "no harm" guidelines include:

- Create a system of immediate and visible recognition to be awarded based on high quality completion of activities – opportunities identified, proposals submitted, and so on. You want to stimulate and recognize the activities that will ultimately lead to the results. Use personal notes, peer recognition in team meetings, circulation of good proposals to team members, and other techniques that call attention to both what was done and how it was done.

- Establish incentive compensation plans that reward RMs for generating revenue. To shift RM attention toward certain capabilities, make some revenue count for more in the plan than other types of revenue. (Example: private placement fees might count for $1.25 per dollar of fee, while loan commitment fees might count for 80 cents per dollar of fee).

  DO NOT run sales contests based on product sales (numbers of installations or revenue by product). The dynamics of these approaches are completely counter to the "advisory" approach needed to position and sell capital market and corporate finance services (and other bank products as well)

- Establish some incentive for retaining accounts. This compensates the RM for the time and risk associated with working accounts that are worth keeping but not, in a given year, big revenue generators.

Compensation and recognition plans must recognize that RMs must invest time to develop their knowledge, competence, and confidence with their customers' circumstances and with the services they are representing. The plans must recognize the time RMs must invest with their customers, learning far more about them than they had to learn when selling ZBA accounts, loans, or corporate trust services. The plans must recognize the risk the RMs take when selling these services; the risks to their compensation and sales production are higher for capital markets and corporate finance capabilities than they are for standard loans and operations-oriented products.

Summary

Sales management coaching drives sales results. To drive sale of capital markets and corporate finance products and services toward optimum levels:

- Clarify market strategies and sales processes by product, including the specific roles and hand-off points for RMs and specialists.
- Redirect your training toward "customer and industry" training away from product training. Make sure RMs see a constant flow of market information (about deals, rates, and market activity) that they need when they talk to customers.
- Focus sales management attention and recognition on the activities that lead to the results you want (high sales of corporate finance and capital markets products). Field coaching and planning are the highest two priorities.

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