Commercial Lending Review

How Retail + Small-Business Partnerships Increase Sales

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The co-owner of a 12-year-old, $1.5 million, deposit-rich professional services firm—a prime small-business banking client by any measure—recently went to a bank branch near the new office he was planning to open for his company. Financing this new office and finding a better way to manage payment cash flow from a geographically diverse set of clients were topmost on his mind. He walked out of the branch less than 15 minutes later, after a sales associate assured him the bank's free checking account was what he needed and gave him a photocopy of a loan application. He doesn't intend to return. Sadly, the bank's business bankers are experienced lending officers with deep knowledge of small-business financial issues who can recommend specific programs to help businesses better manage their cash flow and grow profitably.

This often-repeated scenario highlights one of the most pressing problems in retail banking today: How can we engage the branches and small-business bankers to work better together to more effectively sell and service small-business customers? Branch sales staffs have been overwhelmed with the tsunami of consumers and often feel ill equipped to talk with business owners, assess their business needs, or recommend appropriate bank solutions for businesses and their owners. Commercial business units have concentrated their efforts on the "big guys" (middle-market and large corporate clients). Small-business customers have been lost in the middle.

Bank managers face three profitability issues that a stronger partnership could address: (1) market coverage (revenue growth from market share expansion); (2) customer coverage (revenue growth from client retention and relationship expansion); and (3) cost of distribution (branch costs, small-business banker field sales costs).

How do banks successfully bring together the retail franchise (branches) and the small-business banking specialists (*i.e.*, business bankers or business development officers) to more effectively sell and service small-business customers so the banks can reap the revenue growth

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and competitive advantage rewards to be realized from this hugely valuable segment?

The Most Valuable Retail Clients, Underserved

Small businesses deserve special attention. Although they typically represent only about 10 percent of a retail bank's customer base, small-business households represent a disproportionately higher profitability: 4 to 10 times the average profitability of consumer households. Small-business household accounts (business + owners + employees) can generate 50 percent to 70 percent of a retail network's total revenue.

This high value results from sales across the full range of small-business owner and employee financial services and products. In addition, since small-business owners keep much of their wealth in the form of personal assets, cross-selling personal products increases the revenue growth opportunity.

The connection between "personal products and business products" and "branch staff and small-business bankers" is especially important now. Banks have discovered that small businesses are not abandoning branches for the "low cost of distribution" Internet, as many bank leaders had predicted and hoped years ago:

- Small businesses choose their bank(s) largely on the basis of branch location proximity (60 percent choose branches within a two-mile radius of the business).
- Small-business clients like branches—"If I have a problem, I go to the branch"—because they want to establish personal relationships with branch staff to get things done and for a social/emotional connection.
- Since only 20 percent of businesses are loan-centric, most rely on branches as their primary point of contact to service their frequent deposit-based needs.

That said, recent NBW StratShop℠ branch and business banker small-business sales experience assessments, conducted across the United States and Canada, have identified many important opportunities to improve the small-business sales experience, the branch to business banker referral process, and the business banker sales experience. NBW's assessments indicate that most branch sales staffers:

- Do not adequately probe or profile sales prospects to understand their financial needs, including credit. Most branch sales representatives assume prospects are new, startup businesses. They typically recommend the cheapest checking accounts and stop there.
- Do not assess business owners' personal situations, although owners are among the most profitable personal customers, and branch staff know and are much more comfortable selling personal accounts.
- Do not obtain prospective clients' names or contact information to allow branch follow-up, discussion in branch coaching meetings, or inclusion in the sales lead system.
- Do not refer larger small businesses to business bankers, based on agreed-upon criteria.
- Do not maintain ownership for sales process follow-up. "Come back to see me when you're ready to open your account" is the typical closing action. Since they don't ask for contact information, they or other sales representatives can't followup.

To address these sales challenges, banks began to create small-business segments and lines of business, thereby creating the divided-house challenges with which they wrestle today.

Why the Retail/Small-Business Partnership Is a Challenge

From the 1970s into the 1990s, US bank leaders managed bank branches largely as operations challenges. Banks hired and trained branch managers as operations supervisors responsible for running tighter operations as banks experimented with staff optimization and branch consolidation, then with telephone banking and Web-based banking. Individual consumers were the primary focus; banks had not yet discovered "small business is big business." Corporate and middle-market banking were significant profit generators; senior managers tended to come from commercial loan-focused ranks. Microbusinesses (less than $1 million in sales) and small businesses ($1 million to $10 million in sales) tended to use consumer products or ill-fitting commercial banking deposit and loan products.

As banks began focusing on retail banking as a core line of business and transforming branches from operations centers into retail stores, they realized the value of pursuing small-business prospects. Branch managers' roles changed dramatically. Managers were expected to be a point of contact for small businesses and to make outside sales calls to small businesses. Banks discovered the following:

- Many branch staffers were terrified of making sales calls and talking to small-business owners (both reactively and proactively).
- Branch staff teams were so lean that many branch managers could not make more outside calls (even if they were predisposed to make such calls).
- Branch attention to small business declines when consumer product sales fall behind targeted run rates.

Lessons from Successful Partnership Experiments

To identify what successful small-business banks are doing to strengthen their partnerships, Clarity, with assistance from the Consumer Bankers Association, interviewed senior small-business and retail banking executives in the following institutions during mid- and late 2003:

- Bank of America;
- Bank of Hawaii;
- Charter One;
- Fleet Bank;
- Hibernia Bank;
- JPMorgan Chase;
- Key Bank;
- National City Bank;
- The Royal Bank of Canada;
- SouthTrust Bank;
- SunTrust Bank;
- Union Bank of California;
- US Bank; and
- Wachovia Bank;

Our analysis of the senior executive interviews and NBW's StratShop℠ sales experience assessments from regional and superregional clients revealed several promising trends, including management alignment, goal alignment and incentive systems, sales activity expectations, and branch and staff specialization:

- Management alignment:
  — Moving small business to the retail line of business, instead of commercial banking;
  — Aligning small-business leaders and the branch network under the same retail executive as business partners with integrated business goals at the senior level;
  — Including small-business representatives in all retail bank meetings;
  — Engaging in focused, repetitive management communication to build a strong sense of team, particularly directed from the small-business banking leaders toward their branch counterparts.
- Goal alignment and incentive systems:
  — Agreeing on integrated ("we all win together") branch and small-business banker goals and incentive programs, including shared production and growth goals; small-business "book-of-business" profitability goals; double-counting of production; referral goals; and "household goaling," in which branches and small-business bankers carry both consumer and small-business goals;
  — Assigning small-business bankers to mentor specific branches, creating good personal and business partnerships.
- Sales activity expectations:
  — Joint planning of trading areas surrounding branches;
  — Setting call activity metrics for branch managers and small-business bankers;
  — Assigning small-business bankers to cover specific branches.
- Branch specialization/staff specialization:
  — Training branch managers more extensively in small-business client knowledge and product knowledge;
  — Assigning small-business specialists to some or all branches;
  — Dramatically increasing small-business staffing, merchandising, and training in certain branches, with a business banking center concept.

Three Examples

Three examples, drawn from the banks surveyed, highlight important elements of these changes on market coverage, customer coverage, and cost of distribution.

Square Bank: Small-Business Representatives in Every Market

Square Bank (more than 1,000 branches) defines the small-business market as companies with sales between \$1 million and \$10 million. The bank has created a small-business segment management team separate from the branch management team. Square assigns its top 20 percent most profitable small-business accounts to small-business relationship managers (SBRMs). The branch system is the primary service delivery channel for accounts not assigned to SBRMs. The telephone channel focuses primarily on reactive support and relationship expansion.

Branches. Square's small-business strategy distinguishes branches based on market opportunity—"top 20 percent" or "community"—based on market potential within a four-mile radius of the branch. The top 20 percent of these branches are considered small-business banking centers. As such, the bank commits different resources, from point-of-sale signage to products to technology. The branches focus on small businesses with sales less than $1 million.

A typical small-business center (top 20 percent branch) is staffed with a center manager, a small-business specialist, and two personal bankers. The small-business specialists report directly to the center manager and on a dotted line to a small-business sales manager (reporting in the small-business segment management chain) who manages 20 to 40 small-business specialists in a given market. Center managers support specialists to call on small-business prospects and customers outside the branch and to sell to those who come to the branch. The bank does not assign customers to the specialists. Their small-business goals are primarily production goals—number of products sold in specific product and service categories. The center manager is responsible for day-to-day coaching, rewards and recognition, and regular banking center training.

In all branches without small-business specialists, the bank designates someone in the branch as the small-business "go-to" person. This person is responsible for small-business banking activities and results, including: (1) net business checking; (2) new loan commitments; and (3) total small-business product sales per month. While the center manager is typically asked to play this role, small-business segment management suggests that the branches pick team members who have the knowledge and ability to play the small-business role even if they are not center managers.

Center managers who are designated small-business representatives are supported with additional staffing to reduce the center managers' operations focus, creating time for these center managers to focus on developing new business from small businesses.

SBRMs. The bank deploys SBRMs to markets where there is a strong opportunity for customers in the sales range of $1 million to $10 million. They report directly to the small-business segment management team. Most of them are clustered in market banking centers, not in branches. They're assigned to support 5 to 10 banking centers (all branch types). Their goal set focuses on portfolio growth (contribution from loans and deposits and other fee income), new household growth, and retention.

Telephone channel. Square's customer research indicated a strong preference for face-to-face contact with bank staff. Square's telephone channel is primarily a support for inbound calling, particularly calls stimulated by direct mail. The call center also cross-sells on inbound calls and makes some outbound calls related to direct mail campaigns or specific projects.

Accountability and Partnership

There are four key components: (1) SBRM support; (2) playbooks; (3) specific accountabilities; and (4) training.

SBRM support. SBRMs are assigned to support 5 to 10 branches in their markets. The SBRM reward system includes specific requirements to refer opportunities for specific products to their assigned banking centers, as well as to refer qualified prospects to the banking centers (referrals don't count until prospects become customers). Similarly, banking center staff members are goaled to make referrals to SBRMs. Further, the bank has developed specific expectations defining SBRM activities with banking centers (*e.g.*, X number of center visits per month, helping with outbound calls, mentoring, and working with internal business partners).

Playbooks. The bank has developed and deployed playbooks for both banking center staff and SBRMs, defining major small-business sales activities—who does them, how they're done, and when they're done.

Specific accountabilities. Small-business center managers and specialists in the top 20 percent centers are expected to reach specific small-business goals. They have to meet overall branch goals (consumer and small business) and the component small-business goals. Their continued designation as small-business specialists or market small-business representatives depends on their reaching the small-business goals. Specialists are measured and incented entirely on small-business goals.

In the middle 60 percent of branches, banking center managers earn incentive points for selling small-business products, but can make their incentive based only on consumer goals; however, their managers are accountable for their centers reaching small-business goals. This accountability carries up to the regional executive level, where small-business goals are one of their priorities and they're stack-ranked monthly and incented quarterly.

Training. Square tiers small-business training depending on branch designations. The bank uses a certification process. After their initial training as small-business specialists (several days), specialists get 12 hours of small-business training per year in addition to their product training. Small-business representatives in the middle 60 percent centers get six hours. The bottom 20 percent get three hours. SBRMs are trained, initially, through a three-month period that includes both classroom training and field assignments, supported by mentoring relationships and directed toward sales goals.

Oblong Bank: Branches Defined by Market Opportunity

Oblong Bank (a significant regional player with fewer than 1,000 branches) defines small business as companies with sales of less than $5 million. The bank has extended the idea of branch specialization by market even further than Square, designating branches by market profile (*e.g.,* small business, deposit and investment, and traditional offices), and deploying their branch managers as the primary small-business sales force to companies with sales of less than $1 million.

Branches. In small-business focused branches (roughly the top 20 percent in terms of small-business volume), branch managers and branch small-business specialists (when needed) focus on small-business customers with sales up to $1 million. Branch managers in these branches invest up to 50 percent of their time in small-business calling, making 30 outside calls per month (double the level for a traditional office). Branch specialists are internal sales and service representatives with special training and capabilities for small-business customers.

What is distinctive about Oblong's approach is the importance it puts on the branch manager's role in generating revenue from small businesses, owning the market area, and owning the line of business. It's a lead role, not a supporting role. In order to accomplish this, the bank has developed and refined the infrastructure behind the scenes, including support from business bankers (assigned to call on companies with over $1 million in sales), underwriting, and administration.

Oblong expects small-business branch managers to generate prospects from three sources: (1) leads from a data warehouse based on targeted industry segments and SIC codes based on the bank's credit approval rates; (2) line-of-business lead sources, such as commercial, cash management, mortgage, securities; and (3) self-sourced leads through centers of influence (COI), referrals from existing clients, and local business organizations.

Branch managers are expected to maintain primary focus on a top-50 list of prospects and customers composed of customers designated as high value, other important clients that didn't make the high-value list, and prospects developed from other sources.

SBRMs. In particularly deep small-business markets, local market managers may deploy SBRMs as new business developers and relationship managers (RMs) for $1 million to $5 million small-business customers in the region. When the bank does not deploy SBRMs to companies of this size, a commercial banking sales force addresses them. This commercial banking sales force ultimately reports to the same senior executive as the branch system through regional managers whose direct reports include both branches and commercial bankers.

Telephone channel. The bank's research indicated that customers strongly prefer face-to-face contact and that their ideal small-business customers want to use their local branch offices. Further, the bank does not use "mass-marketing" strategies that would be appropriately supported by a telephone call center. To this point, the bank has not invested in a telephone channel for purposes other than inbound servicing.

Accountability and Partnership

Partnership to assure small-business coverage is supported by the following:

- Management alignment—branches and SBRMs report to the same market management team;
- Small-business branch goals and incentives that are heavily weighted to small business;

- Joint account planning involving branch managers, small-business bankers, and product specialists, when appropriate; and
- A small-business certification program for branch managers.

Traditional branches or deposit/investment-oriented branches earn incentives for small-business product sales, and their goals are balanced among the different product sets (consumer, investments, and small business), recognizing the relatively lower small-business opportunity. Their small-business incentive opportunity is capped.

Although designated small-business branches carry consumer deposit and investment goals, their largest single incentive opportunity is small-business loans, deposits, and ancillary products and services. Their incentive payout can increase significantly if they pass certain threshold performance levels. The incentive plans in the small-business oriented branches are uncapped. District managers coach small-business branch managers to reach specific call activity levels. When appropriate, the bank adds supervisory staffing (*e.g.*, an operations manager or assistant manager) to relieve branch managers of some operations responsibilities, freeing time for sales calls.

The bank supports many efforts to create teamwork, including involving branch managers, SBRMs (where they're deployed), product partners, and commercial bankers in market sales meetings, joint call days, and planned joint account expansion planning sessions.

Branch managers are required to complete a certification training program that includes both classroom work and observed performance in the field. The classroom work includes product knowledge, credit skills, selling skills, and market planning and management techniques appropriate to the specific branch types.

Round Bank: 100 Percent Coverage of Small-Business Customers

Round Bank (fewer than 1,000 branches) measures branch performance based on a book of business. The bank defines small businesses as companies with sales of less than $10 million. Companies with sales of less than $1 million are addressed through the branches or through remote RMs. Companies with sales between $1 million and $10 million are addressed by SBRMs who are managed through a small-business segment management team separate from the branch-management team. Unlike Square and Oblong, the bank does not designate branches by size or specialty. The most distinctive element of Round's approach is its commitment to 100 percent coverage of all small-business customers through branch, SBRM, or remote RM/telephone channels.

Branches. Round sees the branch as a service convenience for small-business customers. "Site managers" manage branches. Each site manager is responsible for growing the site's consumer and small-business book of business. Relationship management and service team members, goaled differently based on their roles, staff the branch. The branch-based RMs are considered part of the branch system. They focus roughly 25 percent of their time on companies with less than $1 million in sales; the balance is focused on consumer business. Each branch-based RM is assigned an annual small-business production points goal and is assessed weekly on production. The branch-based RMs are also responsible for retaining and growing the profitability of an assigned small-business and consumer book of business (the names are refreshed once per year) and meeting specific production goals and weekly call activity targets on customers and prospects.

SBRMs. Round focuses SBRMs on companies with sales of $1 million to $10 million. The SBRMs are part of a separate business banking group and are managed separately from the branch teams. The SBRMs carry a book of roughly 250 small-business customers with sales of $1 million to $10 million. The bank expects the SBRMs to call through the book of business quarterly; the book of business is refreshed annually. SBRM activities are guided by specific activity targets (*e.g.,* weekly call targets with X percent on small businesses, Y percent on prospects, and Z percent on existing clients).

Telephone channel (remote RMs). The remote RMs address small-business customers not assigned to branch-based RMs or to SBRMs. Every one of the bank's 200,000 small-business customers is under management either by the telephone channel or by SBRMs or branch-based RMs. In addition to profiling and selling to assigned existing customers, the remote RMs service existing customers, reducing branch servicing loads. The bank does not tell small-business customers that they're being managed in a call center. Rather, the bank asks customers for their preferred channels. When clients or prospects prefer "live contact," remote RMs will contact branch-based RMs or SBRMs who will make sales calls and follow the companies. Similarly, if branch-based

RMs or SBRMs see that there is little or no growth opportunity in particular companies, they'll transfer them to the call center so they can focus on companies with higher growth potential.

Accountability and Partnership

Round's commitment to 100 percent coverage of the small-business customer base, combined with the bank's commitment to the book-of-business concept and specific growth targets, significantly reduces the small-business coverage and internal partnership challenges. For example, branch-based RM small-business performance in the under $1 million segment is guided by specific small-business profitability and production targets. Although there is no "knockout" provision in the small-business portion of the incentive plan, bank sales leaders coach their RMs to achieve their small-business targets.

The SBRMs are in a similar position. Their incentive plan rewards book-of-business profitability growth, as well as production points in the $1 million to $10 million segment. Each shares leads with the other if the lead doesn't fit their parameters.

Perhaps as important, the bank reduces mind share or priorities conflicts by controlling communications from product departments (*e.g.*, consumer loans, credit card, mortgage) to the field through a central group to ensure that only one main initiative at a time goes to the field, that marketing is consistent in the branches, and that retail and business campaigns are coordinated.

The bank supports the branch-based RMs through a training program, leading to business certification, focused on small-business credit products and underwriting processes.

Results

Results from the surveyed banks' experiments and others are quite encouraging:

- Square Bank reported an 800 percent increase in business direct deposit accounts during a one-year period. At the same time, Small Business Administration (SBA) loan volume rose 200 percent year over year.
- Rectangle Bank's remote RM model cut small-business customer attrition to single digits, posted 26 percent deposit growth, and generated $50 million in net income from 134 remote RMs.
- Pentagon Bank reported a 20-fold year-over-year increase in cash management product sales by committing a qualified cash management specialist to its small-business telephone channel.
- Oval Bank, using a combination of business banking center branches and small-business specialist approach, saw small-business and consumer sales productivity in pilot branches double compared to control branches during a two-year period. The bank is currently expanding the business banking center program to roughly 10 percent of its branch network. The specialist program is planned to rollout to roughly another 20 percent to 30 percent of its branch network.
- Cube Bank's business banking center program, introduced in the 1990s, was so successful that the bank has expanded the program to about 30 percent of its branch network and refined its implementation, saying: "The small-business centers were and continue to be an effective way to get share of shelf, increase sales growth, and improve small-business service levels in a busy retail branch environment."

Implications for Action

Since clients, retail and small business, and shareholders can all benefit from a stronger retail + small-business partnership, we suggest the following for serious consideration and immediate action.

Alignment

Align small-business sales efforts within the retail line of business with integrated goals, sales roles, and sales processes for senior managers, field managers, business bankers, and branch managers, for example:

- "Must-make" minimum small-business asset and liability growth and retention goals;
- Must-make minimum small-business profitability goals;
- Book-of-business assignments, with sales retention and growth expectations; and
- Minimum required small-business thresholds in incentive compensation plans (*e.g.,* eligibility for some portion of incentive compensation depends on meeting minimum levels of small-business production).

Sales Targeting Tactics

Increase share of the small-business household total wallet with tactics to accomplish the following:

- Identify likely high-potential accounts—business owners among current consumer households and stand-alone business-only relationships that do not have consumer accounts with your bank;
- Assign responsibility for small-business sales approach and coverage to specific individuals or teams, with specific accountabilities; and
- Probe for business, personal, and employee sales opportunities in a planned, integrated conversation or a series of scheduled conversations, with both consumer and small-business customers and prospects.

Sales Experience

Deliver a more consistent and higher-quality reactive and proactive integrated consumer-and-small-business sales experience throughout the branch network, to sell the bank's value proposition and differentiate your bank's sales experience from your competitors. Most branch sales experiences are marginal and focus on consumer or small business, not both:

- Implement a simple discussion guide, including key profiling questions as a support tool.
- Revise the sales process to invite another sales representative or the branch manager immediately into the conversation, if the sales representative has a "live one" or is uncomfortable.
- Refer larger sales prospects to business bankers, instead of keeping them in the branches.
- Be sure sales representatives obtain contact information for the prospects and customers with whom they speak.

Business Banking Centers

Dramatically increase the small-business household sales focus at selected branches (small-business banking centers, branch business centers) to focus retail and small-business energy in the highest return locations first:

- Identify branches with larger small-business portfolios;
- Assign a small-business specialist to the branch;
- Train all branch staff to increase small-business sensitivity;
- Increase proportion of small-business merchandising; and
- Integrate branch goals, incentives, and sales process for a total win.

Competitive Sales Experience Comparisons

Compare your branch (consumer and small business) and business banker sales performance with competitors' performances periodically, to identify your specific strengths and weaknesses relative to competitors and choose specific training and sales management gaps to remedy.

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