Selling in Tough Times, Preparing for Good

By Nicholas T. Miller and Lynn Harton

Get out in the market to foster two-way communications with prospects and customers.

Believing "rising tides carry all boats," bank small business, commercial and middle-market business relationship managers (RMs) sell to anyone who's breathing during good times, believing an expanding economy will make it all good. The question is: How should they change sales strategies when the economy is contracting? The trick is to adapt the sales game through broad flexible focus, clear value propositions, consistent disciplines and increased activity levels to sell well through the tough times and position themselves for the better times that follow.

Broad Flexible Focus

The first principle in recession or challenging economic times is "broad flexible focus."

- **Broad:** developing a wide-angle view of bank customers and potential prospects and their challenges and needs during a recession.
- **Flexible:** shifting quickly and nimbly as conditions change.
- **Focus:** knowing what target customers and prospects look like based on current conditions and focusing sales efforts on them.

This principle applies whether we're discussing credit or other bank products.

Credit Perspective

If you're offering commercial bank credit products, it's helpful to remember that your role is to find and structure loans that meet your bank's risk appetite. Your bank is investing in loans and, as capital markets and credit circumstances change, the bank's risk appetite may change. A "good customer" today may not be a good customer tomorrow as conditions change. You need to know, each day and each week, what quality of loan your company is wanting and change your originating and selling focus accordingly. Is that fun? No. It's reality.

For example, a year ago, your bank might have been willing to write loans for condo development or real estate–related industries. This year, it is probably less willing, even though you may have spent years nurturing relationships with prospects and customers in those industries and you believe them to demonstrate good character, cash flow, capital and collateral.

Flexible focus requires the broadest possible perspective of customers and potential prospects. You need to know enough about their needs, financial characteristics, risk tolerances, management capabilities and appetites to know which will match your bank's shifting appetites at any given time. In effect, you have to "grade" their paper just as the capital markets might.

To do this, you have to deepen your understanding of *industry performance and industry risks*—how recession or challenging times are affecting and are likely to affect your region and the industries in that region.

- The impact of water restrictions, for example, on obviously affected industries (for example, car washes) and also the less obviously affected (restaurants)

Nicholas T. Miller is President at Clarity Advantage Corporation, Concord, Massachusetts. Contact him at nickmiller@clarityadvantage.com.

Lynn Harton is Senior Executive Vice President, Chief Commercial Banking Officer at Carolina First Bank, Greenville, South Carolina. Contact him at herbert.harton@carolinafirst.com.

- The impact of dramatically declining fish stocks on obviously affected industries (fish processing plants) and also the less obviously affected (seafood restaurants in Kansas)
- The impact of the home-building meltdown on the obvious businesses (prefab door manufacturers) and also the less obvious (landscapers or caterers)

If your bank senior credit officers aren't "buying" loans to real estate–related companies and they are buying loans to manufacturers who meet certain coverage ratios and other requirements, you have to know who those companies are in your territory and you need to know enough about the impact of challenging times on such companies to "sell" the bank on investing its capital with companies in those industries. Your knowledge of industry challenges will also help you identify challenges you can address with bank products other than loans.

The first principle in recession or challenging economic times is "broad flexible focus."

You also must deepen your understanding of *individual companies within those industries.* While an industry may be attractive, individual companies may or may not be. To gain this understanding, look at both the overall business operations and the management team.

Business operations. Take the extra time and care to understand, "how does this business really work?" and "how will this business work if X happens?" Understand their expected cash flows and their sensitivity to changes in prices and costs. If you're using tools like e-Mentor or First Research, pull information on different lines of business and use the suggested questions. Look for the obvious and not obvious what-if effects of recession and economic change:

- Revenue, particularly conditions that could restrict or divert business away from your customers
- Costs, especially conditions that could cause sudden or significant increases in costs that reduce profitability or cash flow
- Inputs, especially ability to obtain input resources needed to operate
- Cash flow timing in the operating cycle
- Investments and capital expenditures

This is helpful for three reasons.

First, from a credit perspective, you have a little bit of a jump on other banks and the markets in terms of anticipating risks and understanding whether your customers and prospects are responding well. That gives you the flexibility to restructure, reduce your participation in or exit from credit facilities before they become problematic. It also gives you the ability to flexibly focus your sales efforts on companies and industries that will be desirable credits for your bank.

Second, you use this knowledge to differentiate yourself from other bankers and to provide important perspective and value to your clients as an expert. Because their attention may be narrowing to run the business day to day through the recession, your questions and your view of the risks in their plans to expand, for example, or shift their focus to different customer segments can be valuable.

Third, if your customer or prospect can't or doesn't answer the questions, ask yourself, "Why would we do business with this company?" You will preserve your credibility with your underwriters or credit committees by not submitting and supporting credit proposals for companies and managers that haven't thought things through.

Management team. Take the time to understand the management team. Get behind the numbers. Understand how the company makes decisions. Who makes the decisions? Do managers tend to "act first and ask questions later," or do they analyze each decision carefully and accurately before committing?

Understand managers' ability to execute. During past recessions and expansions, have managers developed plans and met their targets and projections, or have they missed? Either way, what did they do, how did it work and how did their experience affect their decision making in subsequent quarters or years?

Understand their risk tolerances, for example, their tolerance for rising commodities prices or fluctuating sales. To what extent do they maintain extra cash reserves to absorb unexpected changes or do they go "all out," deploying every dollar of cash in their efforts to address recession challenges or expansion? How have they set policies or limits that guide their managers' decisions and reduce the unwanted or unexpected risks that the company takes?

Understand the owners' or managers' motivations and their willingness to disclose. For example: A company seeks additional credit availability. Its managers say, "It's insurance, just in case we need it." Nine times out of 10, there's a specific reason they want the availability. It could be that they anticipate their customers may pay much slower in a recession. Or they want to hedge their costs by purchasing raw materials in bulk. Or that they've made a mistake they haven't had to pay for yet, but they know it is coming. You need to identify and understand the fundamental reasons to understand the risk. You need to assess the extent to which company principals are disclosing or withholding information. Companies and banks put themselves in jeopardy when they go into tough times with a banker whose eyes are not wide open.

Companies and banks put themselves in jeopardy when they go into tough times with a banker whose eyes are not wide open.

Other Bank Products

If you're selling other commercial bank products—cash management, deposits, trust or investment services—apply the same broad flexible focus principles to your efforts to sell them. This requires the ability to identify your best likely prospects and modify and sharpen your value proposition to encourage them to do business with you.

Sharpen Your Value Edge

One of us once stayed at a farm-based bed and breakfast in England. When he asked the owners why they were emphasizing the B&B so heavily, they replied that national farm policies were making it tougher and tougher to compete with farmers in other European countries and make a living farming so they were diversifying into other businesses, including the B&B and custom sausage making. Said the lady of the house, "When the horse is blind, sell the strength." In other words, whatever restrictions you face, find the customers and challenges that are not restricted and position your bank's strengths to address those challenges.

In an earlier recession, one of us met an RM based in a small city in a rural area, working for a very large bank. Consistently, he was one of the bank's top performing RMs in the "nonmetro" segment. When we asked him, "How do you do this?" he answered, "My job title is 'Commercial Relationship Manager' but I function more like a combination private banker, risk manager, and treasury management officer. In this market, I can't succeed competing with community banks if I focus primarily on credit. I meet my loan goals, but I get there by helping my customers identify and address risks and challenges they may not have thought about. Then, they do their loans with me." He was selling the strength of his expertise and product set.

Many bankers assume if their bank won't "buy" the paper of a particular industry or company that they're out of business because company principals will say, "If you can't do our loans, you can't have our other business."

First, it's useful to remember that a significant percentage of small businesses and larger privately owned companies in many industries don't borrow at all or don't borrow extensively. Second, while managers in borrowing companies often take that position, they face other business challenges including investment, pension, employee benefits, cash management, risk management and personal challenges—including housing, investment properties, education financing and trusts and estates. Like the commercial RM/private banker we described, focus on their other needs and sell your bank's strengths to address those.

To compete more effectively, refine your value proposition with a clear view of your newly chosen target customers. If you want to earn more than your "fair share" of business and to earn your shot at the healthiest, strongest customers sought by other banks, you must provide a "more than fair share" reason for them to buy from you, particularly if you can't underwrite the loans they seek.

Express your bank's capabilities and your own to create a value proposition that's important and that differentiates you to your target prospects and customers. Specialization and expertise are two critical elements. For example:

- Develop expertise and deeper understanding of a particular industry that your competitors don't know well. Help your underwriters and other product specialists gain insight and confidence about doing business with that industry.
- Develop deep understanding of a particular management challenge, for example, collecting accounts receivable. Use the credibility that comes with your expertise to open conversations about other issues.
- Find ways to reduce the effective cost that your customers are paying to complete an activity (for example, collecting receivables).
- Find ways to increase your service levels in ways that are particularly meaningful to particular prospects, industries, types of companies or individuals who can be referral sources for you.
- Emphasize capabilities that your bank has that others don't (for the benefit of the types of companies or individuals who would generate the most benefit from them).

Follow Your Disciplines

Once you've set your flexible focus and defined your value proposition, stick with them. A reporter once asked Ted Williams, arguably the best ever hitter in American professional baseball, why he didn't swing at pitches that were a little outside the strike zone. Williams answered, "If I did, where would I stop?" The same principle applies to our selling. Once we've defined our strike zones, we should stick with them, avoiding the temptation to chase opportunities that look potentially great yet are outside our strike zone because of their needs, their locations or other reasons. Work with the prospects and customers who are a good fit, whose needs you can serve well. If you feel you're falling behind in the batting average race, increase your focus on your strike zone, again avoiding the temptation to swing at tempting bad pitches.

This means that if you're focusing heavily on offering credit products, stick with your credit process. It's designed, largely, for mutual benefit, so that borrowers continue in business and banks recover loaned funds with interest.

Whatever the minimum criteria or expectations set by your underwriters, meet them. Educate your customers about changes in the capital markets, changes in the banking market, changes in risk environments and the benefits of your bank's disciplines to your customers and prospects. It's likely they're unaware of the fine points. Help them understand that any additional information requested by the bank reflects changes in the markets and risk environments. Have an honest conversation with them that protects the bank and protects the customer through some reality testing.

This can sound something like, "I want you to understand what's going on in your industry, in the capital markets and on your balance sheet. Let's talk." We've heard many bankers say over the years, "We could never ask that," or "We could never say that, the customers would just go somewhere else." So we recommend continuing on: "You're looking for a banker in good times and bad. When we're concerned about cash flow or risk, we will hit you right between the eyes with our perspective. We'll call it like we see it. You don't want a lap dog CPA or attorney. Why would you want a lap dog banker?"

To achieve this straightforward relationship with customers, you need to establish good credit disciplines and expectations with your customers early—the information you need and when you need it, the frequency with which the bank will check credit scores, the frequency with which the bank will ask for updates, the frequency with which the bank will talk to company suppliers when they call. When times are good, these disciplines encourage good communication and provide a foundation for evaluating new credit requirements. When times are more difficult, your borrowers won't be surprised when you ask.

In addition, bring your credit partners in early. First, this reinforces mutual recognition that you and your underwriters are on the same side of the table rather than on opposite sides. Second, your conversations together should lead to deeper understanding of the risks and issues—reality. Third, customers will appreciate speaking with a credit person early to reduce the number of times they have to answer "questions from the underwriters" and to understand the bank's credit perspective and likely implications for facilities and structures. Fourth, the conversations will help you avoid overpromising to customers and overpitching the underwriters with "this is the best deal in the world" advocacy.

Increase Activity

First, work your referral network harder. Your referral network is critical for both access and quality assurance. If one of your trusted referral sources introduces you to a prospect, you're more likely to know something about the prospect and the risk than if you've approached cold, without an introduction. Whether they need financing or cash management services or investment advice, character counts. Your referral source is the first character reference in the "getting to know you" process.

Second, increase calling frequency for companies or individuals whose financial relationships you are managing or seeking and extend your community intelligence networks. There are three reasons for this.

First, anticipation. You're out in the market. You hear things. You are able to follow companies' changing fortunes in small increments. You know early whether a company is troubled or overstretched. You hear what's happening with external factors such as condo sales, the planning board or water availability. You can anticipate their impact on a company and on your bank's position with that company. As a result, you're able to share perspective and information gleaned from your various conversations, thus enabling your customers to take action early. You can intervene earlier on the bank's behalf to identify the facts and take action if there's serious trouble brewing.

Second, the "credit markets perspective." You can tell your customers how banks' appetites and your bank's appetite are changing as conditions change and provide a "reality check" on actions that could improve their financial strength or standing with the bank's underwriters (*e.g.,* don't make that acquisition now, don't use the line of credit for an equipment purchase, maybe you should borrow more to pay off your suppliers and take advantage of discounts).

If other banks are offering "significantly better than the market" terms, covenants or pricing, put those in context as in, "Yes, they are offering those terms, and you have to ask yourself, if I take them, what are their criteria for continuing to provide availability? If they've brought me in 'cheap,' are they likely to be tough on me if we blink funny?"

Third, competition. Your competitors are also stepping up their calling efforts, calling on your best prospects and customers. Company owners and leaders will, as their business challenges increase, entertain visits from and proposals from other banks as a backup to the credit and services you're providing, particularly if they feel they may be at risk for losing their credit relationship with you.

Conclusion

In sum, the keys to selling in a challenging economy:

- Know who you can and want to sell to. This strike zone will be defined by economic and industry conditions, management teams' responses to those conditions and your bank's appetite for particular types of customers.
- Fine-tune your value proposition. Know what you can offer that will make a difference to your prospects and customers in challenging times. Distinguish that value from the approaches that other banks are taking.
- Stick to your disciplines. Once you define your plan, stick with it. Change it as you develop new insights.
- Increase your coverage. When there's uncertainty or change, touch base more frequently with customers and prospects. Use the intelligence you develop to guide your sales activities and to provide new insights to the companies with whom you're speaking.