2017: A Good Year to Reenergize Your Small Business Effort
by Charles Wendel

At most banks the small business segment has failed to generate satisfactory performance numbers. Despite the fact that small businesses represent 95%+ of all U.S. businesses and that they actually *need* banks (and banks definitely need them), the segment has not delivered a strong bottom line. Too often bank management has blamed the segment rather than themselves for mediocre performance, particularly related to non-deposit areas.

What to do? Management should start off the year by considering some basic questions about who they think the small business customer is and how they want to serve them. Ignorance about these and related questions is not bliss; rather, it leads to subpar performance and the failure to provide a strong customer experience.

Based upon our decades (!!) of experience in the small business space and our observations based upon hundreds of client situations, banks need to consider and resolve the issues around eleven basic questions. The fact that most banks will not do so continues to puzzle me, particularly when the payoff to the bank's revenues and net income and in client satisfaction can be so great.

1. How does your bank describe Small Business and why? Each bank defines small business differently, usually based on customer revenues. Companies with less than $1mm revenues need to be sold to and serviced very differently than larger businesses, with a reliance on less touch and more tech. That said, technology also allows a higher degree of customer customization that ever before.

Most banks lack the appetite, skill base, and other resources to service microbusinesses (less than $1mm in revenues), "core" small businesses (say, $1-10mm), and what are in effect lower-end middle market companies ($10mm+). Management needs to articulate whether and how it will work with each segment. For example, some banks pursue a deposit and fee-only relationship with the smallest companies.

Banks need to decide their strengths and the types of companies they should focus on…and avoid. Banks cannot be all things to all companies.

2. Where does Small Business report? Most banks will benefit from small business being an independent group or reporting up through Retail. Having it report into the commercial bank often results in decreased emphasis on the segment and increased internal bureaucracy for the bankers and their customers. The commercial bank mindset and approach differs from the small business banker mindset. Further, banks cannot afford to apply a higher-cost middle market approach to small businesses, and they need to make sure that business bankers and branches are on the same page.

3. What level of priority does the small business segment have within the bank versus other segments? Banks say they are “small business friendly,” but the reality is often different. How difficult is it for a small business to bank with you? How difficult is it for a small business to be a vendor to your bank? The reality may be far from the self-image.

4. What is the quality of your Business Bankers and Managers? Small business cannot be a way station or dumping ground for bankers who have failed elsewhere. Banks expecting to establish themselves in this area need to offer a career position. The best small business banks encourage bankers to remain within the segment and provide them with the internal prestige and compensation to do so. Conversely, as noted in point number five below, if your banker fails at being sales and solutions oriented, he has to be exited ASAP.

5. What percentage of time do bankers spend on sales versus administrative activities? Bankers should be spending most of their time with customers; instead, too often they remain behind their desks doing paperwork and filling out forms. No doubt compliance and other regulatory requirements have increased in recent years, however, support staff needs to be trained and in place to do as much of the administrative work as possible. Too often bankers use paperwork as an excuse to avoid what they should really be spending their time on: developing customer solutions to grow wallet share and determining priority prospects to pursue.

6. From the client’s perspective how do you differentiate your products, services, and delivery model? How would your customers describe your value to them? Do they see you as plain vanilla or something unique? Uniqueness often results comes from the perceived value of the bank’s people and the experience and knowledge they apply to their customer’s requirements.

7. How effectively does the bank sell to the entire household versus the business only? Banks tend to be silo-oriented. Generating strong profits from small businesses requires banks to capture as much of the business and personal wallet share as possible, including personal loans and investments. Remarkably, even small banks suffer from the phenomenon of bankers acting as gatekeepers and blocking sales opportunities from areas. Management should show zero tolerance for this value destroying approach.

8. I**s your smaller loan credit process streamlined?** Many banks follow a similar process for a $100k loan as for a $1million loan. That leads to smaller loans losing money for the bank and creates too many hurdles for a small business to jump through. It is one of the reasons that some banks avoid small businesses. Therefore, consider point nine below.

9. Have you evaluated working with vendors and third-part lenders to reach more customers and improve the customer experience? Alternative finance companies can provide the technology and processes required to allow for profitable small business lending while allowing the bank to control and develop the customer relationship. Many are anxious to partner with banks rather than compete. Virtually all banks should at least be considering the potential value and role of partners in the business (and for that matter consumer) space.

10. Does compensation encourage a strong sales effort? Bankers will not generate greater wallet share unless they receive compensation for doing so. The recent Wells Fargo problem with consumers has forced banks to reconsider their approaches and in some cases even has even discouraged additional selling. Ironically, rather than most banks being too aggressive in this area, typically, banks are terrible at building wallet share and need to improve in doing so. Compensation needs to encourage more product/service sales based upon solutions provided to customers not products of the month. It also needs to link in the branches as part of this effort.

11. Build and implementation plan and review progress regularly. Success in the business space requires excellence in execution, including frequent reviews of progress made, emerging roadblocks, and required changes in approach. Senior management needs to be closely involved in the ongoing review process. Banks are often susceptible to the "emperor has no clothes" phenomenon, whereby, problem identification and resolution does not get the attention it deserves.

Sometimes banks seem to be under attack from multiple sources, including regulators and new entrants. Each aims at reducing a bank's ability to generate growth. Banks cannot afford to lose the small business franchise. Evaluating and refining a bank's current approach should receive a high priority.