

For the 100th Time: Small Businesses Offer Banks a Great Opportunity

by Charles B. Wendel

I mentioned to a consulting friend that I had seen a BAI executive report with the title “Big Stakes in Small Business Banking” followed by the tag line “SMBs are an opportunity for banks.” He quipped “Was that published in 1988?”

No, it was last week, but yes a similar article was published in 1988 and every year thereafter. Also, in the last week the *Financial Brand* website published an article “Delivering the banking services that small and medium businesses need to grow and succeed.” The article states “Financial institutions have a huge opportunity to address the business banking market with solutions based on powerful technology ecosystems.” And on November 3rd, American Banker featured an article: “Fintechs, community banks, and the future of small business finance.” It mentions how a borrower preferred Bangor Savings Bank to a digitally oriented Fintech because of the perceived value of a relationship.

Each of these articles has a lot to offer. The real question, however, centers on whether senior bankers will finally see small business banking as one of their most likely sustainable growth paths and whether they will develop a differentiating strategy aimed at that segment. History suggests that skepticism is an appropriate response.

The BAI report discusses valuable perspectives that any banker focusing on this segment should absorb. But the introduction written by Terry Badger, the Managing Editor at BAI, includes a comment that I respectfully need to take issue with. It assumes something that has yet to be demonstrated at many banks: “Now that banking institutions see the value in small businesses as customers, the big question is how to broaden and deepen the relationships between banks and SMB.” Of course, banks should see the value in SMEs, and they should want to enhance those relationships, but how many are taking meaningful actions rather than just talking yet again about this segment? And do they really see the value and are willing to act on that opportunity?

As Norm DeLuca of Bottom Line Technologies writes in the BAI report, “The banking industry was initially constructed with two main customer segments—retail and commercial. Small and midsized businesses got lost in the mix and even today they’re forced to settle for suboptimal products and services.” Norm’s correct in presenting this as both the opportunity and the challenge. But this has been the case for decades. This gap in focus has given an opening to Fintechs that are either lending directly to this group or are working with banks to enable them to lend to more customers cost efficiently.

I mentioned the phrase “meaningful actions above. What do we mean by meaningful actions? These may include:

- Selecting a business head for the effort who will have P&L responsibility. This job should not be viewed as a two-year rotation, but too often that is exactly how banks view this slot. And, for the greatest impact, small business banking should not be lumped with retail or corporate banking.

- Actively working with Fintechs and other third parties to improve the product suite. Banks have no choice but to work with experienced vendors to provide lending and other products. The good news is that strong Fintechs bring a set of skills that many community and regional banks could never duplicate.
- Going beyond reliance on your core provider. This may be a critical step. At some banks core providers basically tell the bank what type of products they can offer and determine when they will be available. Some core providers seem more focused on internal political and merger issues related to their constant hoovering of other companies rather than on a bank customer focus.
- Ensuring the bank has an IT leader who is innovative and as egoless as possible, wanting to work with outside firms. Establishing a collaborative culture with third parties is critical to success in SME and beyond.
- Selecting industry or other segments for marketing focus . Those segments for focus need to be determined after a frank review of the bank's current capabilities, appetite, and ability to change, as well as market dynamics.
- Solution offerings that go beyond business lending to focus on payments and owner needs, that is, a true holistic approach.
- Providing access by the customer to a consultative relationship with an experienced relationship manager who offers valuable insights while leveraging digital technology to provide competitive service and products.
- Hiring top tier RMs and paying them for success, creating golden handcuffs for the best performers.

The above list suggests just outlines some of the actions required for success with small businesses. There is another consideration. Success requires a commitment of time and resources that some banks may say that have on day one of the effort. But banks need to consider the need for a multi-year commitment. Will they stick with small business? After a few months or a year, some shift their focus to other areas.

Yes, small business provides banks with an attractive market and one that can help to differentiate them from other banks. But they need to approach this business with a clean sheet and focus on the changing needs of customers rather than relying on a bank's traditional approach.

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