Improve 2015 Performance in Small Business and Middle Market Banking
by Charles Wendel

Bankers seem to spend the first few weeks of each New Year meeting internally to discuss the prior year's numbers and kick off sales programs for the New Year. In addition what they also need to do is agree on some tactical steps, in effect a checklist that they should complete as early as possible in 2015.

Assuming that the credit portfolio remains stable or, as in many cases, continues to strengthen, accomplishing these steps can almost certainly result in improved revenues and higher returns per customer. This handful of actions, executed effectively, can make a significant difference quickly.

Ask why? Too many internal people are making too many requests of small business and middle market bankers. Senior management often fails these bankers, allowing various support areas (finance, credit, compliance, among them) to make frequent, time-consuming requests of the bankers. While the requests may be legitimate and important, to the extent possible they need to be centralized with administrative staff trained to handle the majority of requests. Management needs to protect its bankers from as many time non-revenue producing time-consuming tasks as possible.

Require bankers to shift "low value" tasks to others. Just as management needs to minimize the number of time-consuming internal requests, management also needs to insist that bankers use the support staffs that have been provided for them. For example, we see senior bankers doing credit work that junior bankers should be completing. Either the junior bankers are incapable (and therefore should be fired) or the senior bankers do this work because they prefer it to tougher activities such as selling. Frequently, too much inconsistency exists in banker activities from banker-to banker within the same bank.

Require each banker to sell one or two more products to his top ten customers. With few exceptions, banks are failing at cross sell. Even some very large and quite successful banks fail to encourage and track cross-sell performance. Yet, today, the return from selling additional products to a current customer usually exceeds the returns on a new customer acquisition. While gaining new customers remains important, most banks should put a primary emphasis on cross sales.

Experiment with Business Development Officers (BDO) as team members. We have seen BDOs work very well at some banks while failing at others. BDOs, when they are fully incorporated into the RM team, can play an important role in creating a sales culture and building share. Many RMs have a skill set and DNA better suited to account management and cross sales; BDOs who do not have portfolios to maintain should have the time, temperament, and expertise to bring in new names. However, for this function to succeed handoff has to be transparent and detailed in advance and the working relationship between the RM and BDO needs to be strong with each understanding the contribution of the other.

Hire "concierges." Akin to BDOs but different, the old North Fork Bank would hire part-time professionals who were very well plugged into their local community. They focused primarily on generating deposits for the bank and their compensation depended upon the dollar amount and quality of those deposits. These part-timers had careers ranging from rabbi to accountant, but they were all plugged into local business people. Every community, big or small, offers these types of well-connected people who can generate valuable leads.

Tie compensation to performance more closely. Banks operate with more than one "elephant on the room," but too many banks underplay the critical role of compensation as a spur to sales growth. One bank we know emphasizes salary-based compensation whereby, 90% or more of total comp is pre-determined. The banker has only a limited upside available and, therefore, has little economic reason to push himself to increase portfolio revenues. Only a few percentages of additional total comp (further reduced by taxes) results from what may be a significantly greater effort, so why bother? Contrast that approach with another bank in which 40% of total compensation depends on yearly performance or leasing bankers who start off each year with little to no guarantees. But, compensation presents management with a tough issue and too many banks choose to ignore it.

Exit mediocre employees. Banks continue to carry too much dead weight that rather than being of marginal value, in fact often creates more problems. One banker recalled that getting rid of mediocre bankers resulted in improved productivity (fewer "junk" deals coming in to clog up the approval process) and enhanced loan portfolio quality. It also improved his unit's morale. But, like compensation, this is a topic that many banks ignore or delay dealing with. As revenue growth becomes more difficult to achieve, senior management may find that they need to act more quickly in taking responsibility for enhance their staff or they themselves will be exited.

Eliminate low revenue products. Oftentimes, banks are offering too many loan and deposit products, confusing both the customer and the bank sales staff. Rationalizing the product set can increase sales while decreasing operational costs.

Put a fire under Team Leaders. Team Leaders (TL) can either spur the sale effort or they become yet another administrative hurdle. Their roles (and compensation) need to be redefined to emphasize their responsibility for the sale success of their teams. In many cases they should not be managing their own portfolios but rather working with their team members to instill a sales culture and execute on a sales management system. Too often TLs define their own roles and, like the bankers they manage, put selling last in their priority set.

Operate with a sense of urgency. Management could address each of the above areas in a relatively short time, certainly with a few months. But, unfortunately, that is unlikely to happen. The climate of caution and overstudying that exists at most banks today slows down the ability to take quick action, particularly when some of those actions may be experimental or "rock the boat." In fact, this may be the most important initiative for 2015 and beyond, namely to create a climate in which valuable ideas are assessed and, as appropriate, implemented quickly rather than being marginalized over a long period of time.