**Relationship Management, Yes! Relationship Managers…Maybe. (Part One)**
by Charles Wendel

As banks pursue growing revenues and deepening client relationships, many find themselves in a fight for which most are ill suited; in some cases they do not even comprehend who is in the ring against them. True relationship management remains a priority for banks struggling to grow revenues and fend off non-bank competitors in payment, lending, and other financial services areas. However, banks relying on a traditional relationship management model seem doomed to produce, at best, mediocre results.

All banks agree that they need to sell more products and services to their current customers. Every bank analysis that we have conducted or reviewed shows the impact of establishing deeper client relationships:

- Higher revenues, as top relationship clients provide outsized revenues versus others
- Improved returns, as banks are able to enjoy a degree of pricing flexibility due to the perceived value by customers of a relationship with the bank
- Longer term bank clients and reduced origination costs for new business, as the stickiness factor and inertia kick in

Rather than demonstrating the 80/20 rule, true relationship clients generate an even greater preponderance of revenues and profits.

Given the value and critical importance of relationship building, banks approach this task with rigor and consistency, ensuring that they hold on to their top clients and do all they can to grow this valued group. Just kidding. In fact, frequently, banks continue to operate using an outmoded relationship manager (RM) model. While the RM can and should be the revenue leader for the various segments within commercial banking, in many cases they have become behind-the-desk administrators, either unable or unwilling to anticipate customer needs and proactively demonstrate their and their bank's value to increasingly frazzled business owners. At many banks, RMs should be the major sales generators…but not if they lack the infrastructure, DNA, culture, and/or incentives to do so.

There are at least three different groups "in the ring" against banks that want to build relationships.

1. Banks are well aware of the still small inroads being made by **non-bank players**. There are the VC-funded players like SoFi that are directly taking on banks. However, within the business space many top lenders such as OnDeck and Fundation and IT-oriented firms like Mirador Financial have focused on cooperating with banks and partnering with them rather than competing. However, another group of players, some with strong customer ties and even stronger brand names, are directly encroaching on the banking industry's turf. This group including American Express, PayPal, Amazon, Square, among others, are leveraging their unique customer knowledge and the trust they have established to lend selectively.

In face while these new players pose some limited threat, the threat from other sources may be significantly greater.

2. The **business customer** has been changing right in front of the eyes of bankers, but in many cases these changes have not been recognized. To begin, business customers can total between 10-30 million company targets. No easy classification of them is possible. Despite the diversity of this group, we see some unfortunate trends for banks from our customer research and client work:
- Continued distrust of banks and wariness about overreliance on them by a significant number of customers.
- Improved cash flow management by businesses, reducing the need for the best companies to borrow.
- Overall, increased sophistication and reliance on self-service by business owners and their employees. While banks want to capture more business from each company, it is easier than ever for companies to disaggregate their financial services purchases. In some areas, such as investments and specialized lending, banks are often at a disadvantage to a specialty non-bank provider.
- Increased willingness to work with alternative lenders. In our initial work for alternative lenders we were surprised to see the number of bankable clients who preferred to pay more for a loan to avoid jumping a bank's hurdles. As alternative lenders move more into the mainstream (and reduce their rates and fees) more quality clients may add "alt fins" as a borrowing option.
- The Baby Boomer is fading away. Banks grew with that generation but most have yet to find an approach to exploit the economics provided by Gen X, Gen Y, and other groups replacing a once dominant and somewhat homogeneous and reliable demographic segment. Much greater uncertainty exists for banks in meeting the needs of these groups and making money while doing so.

3. And now for the biggest challenge that banks face in establishing an effective approach to relationship management…**banks themselves**. The non-bank lenders will grow but, for various reasons, there may be a cap concerning the degree to which they will penetrate businesses. Yes, many customers are increasingly independent and ornery, but they respect and want advice that will improve their performance. The opportunity exists for banks to continue to grow profitably, but the situation at many banks creates internal roadblocks, many of which seem to have existed forever.

*Focus on low-value tasks.* To this day, many RMs spend too much of time handling various administrative tasks. (We have seen percentages ranging from 30-60%.) Most of these tasks need to be performed, but, as the most productive banks have done, specialized admin oriented staff can assume these duties. This may appear an obvious and easy productivity step, but many banks have failed to take it.

*Inconsistency.* To this day, many RMs in effect create their own job descriptions. So too with Team Leaders. Management needs to review the job descriptions and responsibilities for these and similar roles and ensure they are being fulfilled.

*Misaligned incentives*. To this day, banks fail to sufficiently align stated goals with compensation.

- Want new business relationships, then put more weight on this area
- Want more cross sales, then state the goal and reweight
- Want the best performers to work their hardest, make sure there are no caps on overall potential incentives

*Wrong people*. To this day, banks operate with some of the wrong people in key sales positions. For a bank to succeed the RM job cannot be an admin position. When banks strip away the admin tasks from RMs they often find that their RM staff simply does not have the ability or appetite for sales. Training may be necessary but replacement may show even greater improvement.

*Wrong segments*. To this day, banks need to decide where to play and where not to. Management (with credit group input) should determine where it wants to focus (company type, loan type, fee opportunities, etc.) and communicate that emphasis across the business bank.

*Bad culture*. To this day, a lack of internal cooperation exists at many banks. Product groups, the credit area, and the line must operate with a spirit of common goals, respect, and collegiality for business banking to succeed. If the credit area does not respect the line, frustration and subpar revenues will result.

We could have (and did) cite each of these issues 20 or more years ago for prior clients. Some banks have never addressed these issues, others have slipped back into old ways, and a third group has improved in some of the above areas while ignoring others. Each of these areas establishes a growth platform and each needs to be reviewed with a resulting implementation plan for improvement.

Next time we will expand on the areas constraining bank growth and suggest some remedies.