Succeeding With Microbusinesses

by Charles Wendel

Last time, we discussed the 90%+ of businesses that many term microbusinesses, that is, companies generally with revenues less than $1 million. To generate acceptable returns from this segment, high tech has to take precedence over high touch; economics demand that reliance. When a customer does require personal attention, the branch staff must lead sales and service activities. Otherwise, specialty business bankers who should be focusing on larger clients are deleveraged, and the businesses' economic model turns negative.

But, practically, how does a bank best align its branch staff with its microbusiness effort? This seems to be an age-old problem with which banks continue to grapple.

Banks should consider a ten-step process for improving branch sales and service to microbusinesses. While this process requires substantial effort and likely some tough decisions related to personnel and other areas, banks that avoid addressing this challenge may suffer from inconsistency in how they approach microbusinesses and, ultimately, generate subpar results. The path to success seems clear, but few banks are willing to do the hard work required to travel down it.

1. Evaluate current branch capabilities and quantify opportunities. Step one involves reviewing current branch performance and the factors driving it. Remarkably, many branches at banks both big and small generate zero to few microbusiness loans. The reasons for what top management needs to view as an unacceptable performance vary from branch to branch and bank to bank but often include:

- No sales culture: branch bankers who like to sell seem to be a rare breed
- Lack of available sales time: senior branch staff may be focused on service and administrative issues
- Lack of knowledge: branch staff may be uncomfortable with and intimidated by business lending in part due to insufficient training and an ineffective sales management process
- No incentives to sell: business lending may not be effectively incorporated into a bank's incentive plan
- Complex product set and/or application process: The more a branch banker has to learn or the more steps he needs to take to originate and process loans, the less likely he is to focus on that area.

As for quantifying and targeting marketing priorities and, thereby, directing sales efforts, in recent years an avalanche of data has become available to banks wishing to understand their local business opportunities. Database providers now capture information from dozens, if not hundreds, of sources. Banks can screen the demographic composition of a branches' potential business customer base by revenue size, industry, past credit performance, and even likelihood to purchase certain products. Branch sales staff no longer needs to rely on driving around business parks or shopping malls to find targets. Targeted marketing can take much of the guesswork out of the marketing process. With branch banking like most other opportunities, the 80/20 rule dominates. In short, the majority of a bank's microbusiness opportunity exists within a relatively small number of branches, and it is those branches that merit the majority of management activity.

Step one involves not only quantifying the opportunity existing in the local branch catchment area but also assessing the ability of the branch organization to deliver on that opportunity:

- Does branch personnel have sufficient time, knowledge, and desire to sell?
- Are there specific characteristics related to the local geography that the branch should address, for example, a concentration in certain industries or an economic trend?
- How should branch opportunities be prioritized to ensure the most effective use of limited bank resources?

2. Assess implications of the review. Once a bank assesses its current performance and key drivers as well as where opportunities exist, management needs to assess and act on the implications of its findings. What does the bank need to do differently going forward and what specific changes need to occur within the branch and the people who work there to capture revenue opportunities?

One key area centers on people: Do branch managers possess the ability to serve and sell businesses? Will training fill the gap? Or, alternatively, do they need to be replaced? One client that initially invested in training found that they needed to replace about 50% of their lead branch staff in order to move performance in the right direction.

If bank management is unwilling to act on the implications of their branch reviews, they should not begin the review process.

3. Clarify ongoing roles and responsibilities. Oftentimes, one significant required change involves clarifying job definitions within the branch structure to create a greater focus on sales. For example, the branch (BM) or assistant branch manager may have calling and business-related sales goals. But, banks are often better at adding "to dos" to the branch than they are at truly redesigning a job to provide both clarity and success to branch sales activities.

The inelegant description I like best compares branch activities to a sausage. Management keeps pushing more expectations and responsibilities to a branch, stuffing it with more to do while too infrequently eliminating enough tasks to free up time and focus for sales. Of course, the use of technology and centralized processing has freed up time; however, at many banks much of that time has been allocated to compliance and regulatory issues, not selling.

Depending on the bank the BM's responsibilities may include:

- Providing relationship management for microbusinesses and other businesses with branch issues
- Opening small business accounts and identifying cross-sell opportunities
- Providing relationship management to retail customers
- Managing administrative and compliance and activities
- Training branch staff
- Encouraging customers to self serve
- Handling human resources and scheduling issues
- Maintaining the staff

The above are all necessary tasks, but they can conflict with giving the branch personnel time to sell to businesses or serve as an excuse for not doing so.

What's the solution? Each bank will require an approach that addresses its individual situation and culture, but some banks find selecting a Branch Business Banker (BBB) increases the focus on selling to microbusiness. The BBB can work with multiple branches and can serve as the BM's sales coach and team leader in this sales initiative.

4. Simplify the product set. For years many product managers have been building products faster than bankers can learn how to sell them. Comments from branch personnel include:

- ✓ "The bank has hundreds of products for SMEs and consumers, and the branch is supposed to know them and sell them all. It isn't possible."
- ✓ "There are too many deposit products."
- ✓ "The fewer the number of products, the better."

In contrast, in entering the small loan market for businesses, alternative finance companies (AFCs) have emphasized streamlined processing and a standardized product set. Going back to the 80/20 rule mentioned above, banks can often reduce costs and improve marketing focus by limiting the number of loan and deposit products. For example, we worked for one bank that offered seven deposit products when, in fact, only three were justified by customer use and profitability to the bank.

5. Segment the opportunity. Segmentation deserves more focus than a brief section, as it is a critical factor in driving bottom line performance with microbusinesses and other customer groups. Top banks identify priority customer segments and create a product offer that meets each segment's specific requirements. As a starting point, banks should evaluate their current customer set to determine their most significant segments. In some cases those segments have developed by chance rather than strategy.

A gap often exists between the segments a bank would like to serve and its current reality. We worked with one bank that, like many others, wanted to focus on professional services, that is, doctors and lawyers. However, when we evaluated their current portfolio we found that retail (not surprisingly) comprised their largest segment and that their penetration into professional services was well below bank industry averages. This bank decided that the investment in product and people was too great to bridge that gap.

6. Establish metrics and manage by them. One major bank we know focuses on metrics capturing five activities: number of calls, proposals made, hits generated, hit ratio, and new revenue generated over about 12 product areas. These metrics and others can now be collected by Salesforce.com or other software, allowing management to track individual and branch performance closely.

Every bank has metrics that it tracks, but does it live by them? By that we mean does it pick the right metrics that are aligned with its business goals and does it tie business goals into its incentives.

7. Redesign and implement incentives. The old cliché that people do what they are incented to do remains as true today as ever. At many banks, either implicitly or explicitly, bankers feel goal number one is to keep internal compliance and external regulatory types happy; selling takes a back seat to this. But, branch sales incentives aimed at microbusiness growth need to be an important part of branch compensation.

Incentive payments as a percentage of total compensation remain too low at most banks. For sales organizations "at risk" compensation can be equal to or more than base dollars. Conversely, at banks it represents a relatively small part of the total, anywhere from 10-30%. Certainly, if a bank has BBBs focusing almost exclusively on sales, their compensation should reflect their success or lack thereof.

8. Enhance the sales management process. Recently, I was with a client selling a relatively sophisticated product. I began to ask about the sales process and how much time senior sales officers spent selling versus service and support. Despite the value this capability provides both the client and the bank, "sales people" spend upwards of 60% of their time on non-sales activities. And, while the bank has a sales management software that captures leads and communicates across the bank, this group opted out of using it.

Tools like Salesforce.com can increase efficiency and improve communication within the bank. All the banks we know that use this tool effectively operate with the philosophy that if it is not on Salesforce it does not exist. A tool like this can transform a bank's culture to make it much more client focused and can result in more per client sales; opting in cannot be an option.

9. Lever technology. I placed technology late in this list because bankers often give it too much weight, hoping that IT will somehow solve non-IT related problems. While often implemented poorly, the effective use of technology can change profit dynamics and turn losses into profits. Some areas include:

- Applying the insights provided by Big Data to target marketing activities
- Using digital banking to streamline processes
- Collecting traditional and nontraditional information to improve credit decisions through enhanced scoring
- Tracking sales activities and simplifying cross-bank referrals

These can be transformative tools, or they can be a waste of money, depending upon the depth of commitment that a bank has to the microbusiness segment.

10. Review and revise. In effect, the review and improvement process never ends, as bank management incorporates its experience and adjusts to market realities.

The branch must play an essential role if banks are to sell and serve the microbusiness segment cost effectively. These comments outline the extent of the changes than many banks need to consider if they are to travel down that path. Banks that are unwilling or unable to do so should avoid small dollar business lending or, alternatively, look to partnering with AFCs to fill those requirements.