The Perils of Cross Selling and How to Avoid Them
by Charles Wendel

Recent new stories about Wells Fargo and its cross-selling misadventures have put a harsh spotlight on a practice that many banks pursue and increasingly emphasize. Successful cross selling plays a critical role in bank profitability. But when cross selling goes wrong, disaster can occur. These days disaster can be defined as an assistant telling a senior manager: "Senator Warren's office is on the line."

The Wells Fargo fiasco is notable both because of its scale and, ultimately, its impact on the banking industry. The *Financial Times* reports that since 2011 "Wells signed up as many as 2 million customers across the US for new accounts and credit cards without them knowing anything about it." These actions resulted in a $187 million fine, calls for Congressional investigations, and a bucketful of bad publicity. As one analyst commented, "Breaking faith with customers is simply unacceptable." It does not help that the senior Wells person to whom the offending bankers reported will soon retire with $100 million in assorted benefits. As an *FT* columnist stated, "Wells reputation…now lies in disarray."

Wells and other banks are now revisiting their sales practices. The CFPB even told Wells to hire a consultant to review its practices. One hopes it will not be the same consulting firm that designed Wells' approach to cross sell. Ironically, the *FT* also reported that this fraud was a failure, generating just $2 million in income over five years.

So, what to do? If banks are to grow revenues, lower origination costs, improve their returns, and better serve their customers, cross sell cannot be an option. Virtually all of our analysis in this area demonstrates the value of cross sell to a bank's bottom line. The more share of wallet a bank captures from an individual or business, the greater that customer's value, potentially increasing per customer household income by 100 % or more while making relationships stickier. FIC constantly preaches the value of capturing as much of the household opportunity as possible, including business accounts, the owner's relationship, and employee opportunities. Some segments such as small business are difficult to justify without extensive cross selling.

Rather than having to try to control over eager sales staff, we find that most bankers are reluctant cross sellers. For example, in one recent project we found that a very well regarded bank struggled to get their bankers to offer personal products to business owners. Reasons included a lack of product knowledge, limited experience with their sales colleagues from the retail area, and a laser like focus on their own area and their personal bottom line.

Cross sell is good for banks, but is it good for the customer? The acid test is that bankers should only cross sell if they believe that the products they offer provide their customers with a benefit and that the products are at least competitive with

other products being offered in the marketplace. (Given the degree of product commoditization, they usually are.) Years ago we consulted to a large brokerage firm that wanted its brokers to cross sell additional bank-like products to the broker's customer base. We found that many of the brokers were simply intransigent about doing so. Even with incentives, they would not sell additional products to their clients unless they viewed the products as something they themselves would purchase. They wanted to protect their clients from second rate offers, knowing that providing mediocre products would threaten the relationships that they had worked hard to establish. That should be the one of the acid tests for cross sell, namely, product quality.

Another test involves the banker considering the appropriateness of the product for a particular client. Years ago my 70+ year old sister called me to ask my advice. Her Wells banker wanted her to complete a financial plan at no charge. I knew her assets and that her financial needs were simple. I assumed that the bankers wanted her to complete a plan to fill a quota. Given recent events, that was probably a good guess.

Management must ensure that its culture and compensation align with what is best for the customer. This may turn out to be the biggest problem area for Wells. It was a different bank, Chase, that years ago illustrated for me the compensation trap for bankers. My then banker called to offer FIC a line of credit. I had never borrowed, but there was no fee attached, and I thought it could be helpful for possible cash flow issues. I started to collect the necessary information and at one point the banker was to call my accountant to obtain some necessary information. Weeks later, when I called him about another issue, I asked about the statue of the loan app. He said that he had been unable to talk with my accountant and that "the promotion ended." He meant that the promotion that paid him an increased incentive for loan units had ended. The ending of the internal promo also ended his interest in his customer's needs (in this case me), not a good thing. A number of articles about Wells have quoted bankers talking about the pressure they were under to sell. Unfortunately, they were willing to sacrifice their ethics and perhaps even break the law to meet quotas.

The Wells disaster indicates a culture gone amok, and a management team that likely needs to be replaced. However, their malfeasance does not negate the importance of cross sell or its potential value in providing customers with convenience and fulfilling their unmet financial services needs. The worse case coming out of this snafu is that banks become "cross-sell shy" or are limited in their legitimate activities by regulators gone wild or, rather, even wilder.