

## **The Secret to Small Business and Business Banking Success**

By Charles B. Wendel

It has taken me a decade or two longer than it should have to figure it out. During that time FIC's projects in the small business and business banking spaces have focused on segmentation, organization, product management, pricing, cost reduction, and myriad other critical areas. These are all valid and important areas for banks to consider. But, while I noticed and occasionally commented about it, I failed to emphasize the most important success factor.

I even remember being asked by a newly appointed business banking head (now long gone from that position) if I had any secret sauce to offer. In fact the secret sauce was literally staring me in the face, but I missed it. The sauce differs somewhat for small business versus business banking.

Consistency in leadership, to be sure that means quality leadership, is the secret sauce. Without that, all the "gee whiz" CRM, data analytics, and digital initiatives do not mean squat. The secret sauce consists of a dedicated, committed leader (and his team) with clear lines of authority. This leader shows (I hate the overused upcoming word) *passion* about what he or she does. To this business leader his or her role is not the way station to another position in the bank that features larger loan dollars. As fundamental as a long-term role is, its existence is the rare exception rather than the rule. As a colleague commented, "Small business and business banking are seldom destination jobs," although they need to be.

To be clear on definitions, banks often define small business based on revenues, up to \$2-3 million. Business banking goes from there up to \$10-30 million, with the middle market taking on larger companies.

Clarity of responsibility is often the problem in the small business space. Small business often reports within the branch area. Some banks leave responsibility for this line with regional managers rather than appointing a designated small business head. Even when small business has a leader, oftentimes that person lacks direct authority, relegated to acting as an influencer of branch-directed activities. While branches hold responsibility for small business they may also employ business banking specialists, described by a knowledgeable expert in this area as a group that is usually ineffectual: "Everyone wants them and everyone fires them." Instead what is needed is a respected head of business banking who runs a P&L, sets direction, and has the authority to direct branch activities in this area. Today, many banks allow a more chaotic situation to exist, one that avoids enforcing consistency and discipline.

During the last several months, I have read about or learned of the appointment of new heads of small business and/or business banking at about ten banks. Not tiny banks but, in many cases, major regionals. I can also name two top-five banks (and there may be more) that should have a revolving door on their business banking

executive office to reflect the frequency with which the head of that segment changes. Two or three years ago I heard the head of one top five-bank speaking at a conference about all the initiatives he had underway. Knowing the bank I doubted he would be there long, and two years later he was gone. A consulting friend who regularly interacts with a group of business banking segment leaders noted that in the last year that group had turned over by 30-40%.

In the current economic environment in which cost cutting remains a high priority business business groups find themselves being squeezed and often crammed into the commercial banking area. In that situation, any business banking momentum tends to come to a halt, as bankers naturally move to larger targets and loan opportunities and the credit review process for small loans mimics that for larger transactions.

How do you build and keep secret sauce leaders and team in place?

Senior management needs once and for all to determine where it wants to focus. For example, the banks we know with the strongest business banking groups operate with the enthusiastic support of the bank's top management, support that has been demonstrated over the long term. Support equals action and not just words. Higher compensation would also help.

In the small business space, clarify who does what. Leaving small business up to regional managers is equivalent to saying small business is a low priority. Some regional managers may be focused on and good at selling and servicing small businesses. The problem comes from the reality that only some of them are good at it, keeping the bank from being able to provide a consistent experience and build a strong brand.

In addition, banks need to incorporate third parties as long-term partners. Whether related to providing modules related to a digital platform, enhancing risk capabilities, improving target marketing, or more complete integration, third-party vendors are often at the leading edge of technology and analytics. They should be fully exploited both by small business and business banking leaders, rather than being viewed as threats to the status quo.