As appeared in...

WINTER 2004-2005 COMMUNITY BANKERS ASSOCIATION OF NEW YORK STATE

CBANYS CHRONICLE

Is Your Bank Cross-Selling Profitably?

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As the financial industry has become increasingly enamored with cross-selling products and services, it is confounding how many are still struggling with this process, haven't learned and/or don't understand how to do it profitably.

My good friend Kevin Link (Executive Director of AMI*fs*, the international association for bank management accounting) and I have been teaching and speaking together for many years. Kevin often starts his programs with an interesting exercise for CEOs. He buys a McDonald's value meal, unbundles the Big Mac, French Fries, and Soda, and asks the group what the margins on each of these products might be. Almost always, the group of CEOs understands that the soda has the highest margin and the Big Mac has the lowest margin, and they also get pretty close to estimating the exact percentage number associated with each item.

Upon patting themselves on the back for their collective intellect, Kevin will then ask, "by the way, what is your margin on a particular consumer loan, or deposit product." The room is then usually filled with dead stares and silence. Kevin will then say, "see, you know more about McDonald's business then you do about your own."

This little exercise always seems to make its point. For it is only recently that the community banking industry has begun to incorporate management accounting and information tools to better understand the profitability of lines-of-business, organizational units, branches, products, customers, and market segments. Manufacturers and other industries have been using cost and management accounting tools throughout their entire existence.

In fairness to financial institutions, the types of products and services we sell are substantially different then many other industries. They are often intangible versus tangible products. When we buy a hammer at a hardware store, the only obligation the storeowner might have after the sale is to replace the hammer if it breaks within a certain period of time. Most financial products have a life beyond the sale. For instance, with a loan, we hope and sometimes pray that we will be paid back. With a deposit product, we have an obligation to properly transact and service that product, as well as secure our customers most prized possession, their money.

Today the typical community bank sells over 100 products and services versus only a handful 25 years ago. Larger regional, super regional and money center banks may offer as many as 400 to 500 products and services. The ability to understand profitability and performance by the seat of ones pants has passed. Asking branch staff to sell products and services without understanding basic profitability and customer and market segment expectations is difficult, at best.

Banks have also gotten so sales oriented that they have forgotten service. At the Spring 2004, BAI/AMI*fs* annual conference, Jim McCormick, President of First Manhattan Consulting Group, discussed that for every 130 service opportunities the typical bank has with a customer, there is one sales opportunity. I took this to mean that we have 130 opportunities to "screw-up," just waiting for that one incremental sale of a product. Jim went on to say that those financial institutions that had implemented a sophisticated MCIF, or CRM system were only able to lower this ratio to 125 to 1. Mind boggling perhaps, but what this really reflects is that we can't necessarily shove products down the consumers throat if they don't need them, want them, or if the timing is not right.

Misguided Sales Techniques and Incentives

In fact, some of the hardcore, quota driven sales techniques used today have had a reverse or negative effect on customers and employees. I recall one branch manager being challenged by her supervisor to make sales calls to customers with high savings balances in order to move them into the bank's investment products. The branch manager stated she had already contacted a particular customer on numerous occasions, and the customer was satisfied with the deposit relationship the way it was. Upon the supervisor's insistence, she called again, only to hear the customer say that if he was bothered one more time, all his accounts with the bank would be closed.

Some banks have tried the product promotion of the week business development technique. One bank held a new checking account promotion during the month of November. They decided that the branch region with the most new accounts would win an incentive based reward. The region with the most sales had triple the results of any other region. It was later uncovered that the winning region had decided to open up all new Christmas Club accounts as checking accounts and that one branch manager had opened eight checking accounts in his own name to elevate the totals. In this example, neither the customer, the employee base, nor the profitability of the bank benefited.

Unrealistic Expectations

Another problem we encounter in cross-selling is the unrealistic expectations we have placed on our branch staff, particu-

larly tellers. In today's banking world, we are asking or even requiring that our front line staff have brokerage and insurance licenses, meet sales quotas and service expectations, work longer hours including nights and weekends, with minimal training and all of this for only $18,000 per year. No wonder we have such high turnover!

The Corporate Executive Board's ("CEB") Council on Financial Competition recently did a study and determined that the average branch staff person can only master six products, which they then tend to push or sell 90% of the time. What makes this even scarier is that each person most likely has mastered a different group of six products. How can we possibly match customer needs with product offerings given this staff expertise and knowledge gap? In addition, with the multitude of products we are now selling, increased training alone cannot solve the problem.

Why Some Banks "Hit the Wall"

The result of all of this is that many banks are "hitting the wall" with regard to employee and customer satisfaction and resulting lack of bottom-line profitability. A significant part of this problem is due to the fact that our economic outcome is in the hands of our customers and depends on their behavior after the sale. Contributing factors include: poor training, misguided incentives, inability to understand the customer's needs and wants, inability to deliver once sold, misplaced focus on service, difficulty in finding and retaining the "right" people, and poor internal performance and profitability measurement systems.

It is also ironic that the more delivery channels we offer in disparate ways, and the more product choices we give our customers, the more challenging profitability becomes. This whole host of choices has frequently added more cost than profit, increased customer confusion, and decreased customer loyalty. Additionally ironic, is that we have spent years trying to get customers to use alternative delivery channels, but then want them to come into our branches so we can cross-sell them another product or service.

Dealing with the Issues

So what are we to do?

First, community banks need to get more serious about developing the right management information to make better and more informed decisions. This should be developed for all levels of the organization, from senior management through line and staff, and most importantly out to the front lines. How can we tailor our sales, service, marketing efforts if we don't understand the basic performance of the products and services we sell and the constituents we sell to?

Second, we need to rethink the type of front line staffing we desire, the expectations we can realistically have of them, the training and management tools we give them to succeed, and the pay and reward systems necessary to provide appropriate incentives. A client of mine explained this best when he stated that a football coach doesn't tell his team that they will win the game by scoring 23.5 points, rushing for 178 yards, passing for 212 yards, holding the other team to 198.8 total yards, and causing 2.7 turnovers. This equates to management telling front line staff they need to make 15 telephones calls per week, three investment referrals, open two checking accounts, etc. What he went on to say is that a successful football team practices every day how to play the game, so that when game time comes, they are prepared to play against (or in our case with) whatever the daily obstacles or opportunities are that present themselves.

Third, we need to understand (as was stated in the CEB study) the connection or lack of connection between price, balances, cost of doing business, and defection risk of our customer base.

It has often been stated that successful financial institutions are able to move price down the list of importance for our customers and prospective customers. For community banks, competing on price against large bank competitors is rarely an option. Excellent local community bank service and decision making, with long standing relationships is a way to combat this competitive disadvantage. Also, the concept that the more products and services a customer buys, the more profitable they will become is a fallacy. Albeit, the more products a customer has with us, the harder it is for them to move their relationship. However, often times the concessions we make on incremental products puts us in a position of selling at unprofitable rates to otherwise unprofitable customers.

Perhaps the most crucial indicator of profitability is the size of the balance relationships of our customers, or said another way "share-of-wallet." There is not necessarily a connection between the number of products, average balances, and resulting profitability. This is why Home Equity promotions may end up opening multiple new lines-of-credit that may never be tapped and all they do is add an incremental cost of doing business. The focus on number of accounts per customer needs to be adjusted to include the size in balances of the overall relationship.

We also need to realize that number of accounts and even average balances my not be a good indicator of what it costs us to serve a customer. Some customers write 5 checks per month, while others write 50. Some use only one or two delivery channels, while others use all of them. You can see the increasing complexity of this problem since much of the customer's cost of interaction is determined after we sell the product.

It is also safe to say that it is easier and less costly to retain and work with an existing customer then attract new ones. An additional factor to our increasing cost is the cost to sell and market. Unfortunately, because our cost structure has increased due to these efforts, customer breakeven points are longer, and the need to avoid defection of profitable or potentially profitable relationships is critical.

Fourth, we need to be more focused on the market segments of customers to which we sell products and services. It is easier to tailor marketing and sales programs, and product and services packages to market segments than to individual customers. By identifying a handful of key market segments and packaging products based upon those market segment needs, we increase the likelihood of meeting an individual customer's needs head on, as well as building lasting relationships with critical mass to be profitable. In addition, our staff training can now be focused on six to eight market segments, and the package of products customized for each segment, rather than an insurmountable and random list of 100 plus products.

Given the magnitude of the issues and problems, there are no easy answers. However, good and useful information, hard work, and continued diligence will be keys to success. Community banks that focus on developing win-win situations for them and their customers will stay relevant and profitable. Remember, in today's consolidating industry, community banks must earn the right to remain independent every day.

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