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Extra Value: Cross-Selling Not an End unto Itself

The most crucial indicator of profitability is the size of the balance relationships. There is not necessarily a connection between the number of products and profitability.

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

My friend Kevin Link, executive director of the Association for Management Information in Financial Services (AMIfs), 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 understands that the soda has the highest margin and the Big Mac has the lowest.

As the CEOs are patting themselves on the back, Kevin will ask, "By the way, what is your margin on a particular consumer loan, or deposit product?"

Silence.

"See, you know more about McDonald's business then you do about your own," Kevin will say.

This 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.

Today the typical community bank sells over 100 products and services, versus only a handful 25 years ago. And with that comes the pressure to sell.

Indeed, many banks have gotten so sales-oriented that they have forgotten service. Jim McCormick, the president of First Manhattan Consulting Group, said at a conference recently that for every 130 service opportunities the typical bank has with a customer, there is one sales opportunity. He added that banks that had implemented a sophisticated customer relationship management system were only able to lower this ratio to 125 to 1. What this reflects is that banks can't shove products down consumers' throats if they don't need or want them, or if the timing is not right.

Some quota-driven sales techniques have had a 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 that she had already contacted a particular customer on

numerous occasions, and the customer was satisfied with the relationship the way it was. Upon the supervisor's insistence, she called again, and the customer said that if he was bothered one more time, he would close his accounts.

One problem banks encounter in cross-selling is the unrealistic expectations they have placed on tellers. Banks are asking that front-line staff members have brokerage and insurance licenses, meet sales quotas and service expectations, and work longer hours, all for $18,000 per year.

The Corporate Executive Board's 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 scary is that each person most likely has mastered a different set of six products. How can banks match customer needs with product offerings given this staff expertise and knowledge gap?

The result of all this is that many banks are "hitting the wall" with regard to employee and customer satisfaction, and profitability. Contributing factors include: poor training, misguided incentives, the inability to understand the customers needs and wants, the inability to deliver once sold, a 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 banks offer, and the more choices banks give customers, the more challenging profitability becomes. This host of choices has frequently added costs, increased customer confusion, and decreased loyalty. Banks have spent years trying to get customers to use alternative delivery channels, but then want them to come into branches so they can cross-sell them.

So what are banks to do?

They need to get serious about developing the right management information to make better and more informed decisions. How can banks tailor sales, service, and marketing efforts if they don't understand the basic performance of what they sell?

They also need to understand the connection, or lack of connection, between price, balances, the cost of doing business, and defection risk of our customer base. The concept that the more products and services a customer buys, the more profitable the customer will become is a fallacy. True, the more products a customer has, the harder it is for him or her to change banks, but often banks end up offering unprofitable rates to otherwise unprofitable customers.

Perhaps the most crucial indicator of profitability is the size of the balance relationships of customers. 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; all they do is add an incremental cost of doing business. The focus on the number of accounts per customer needs to be adjusted to include the size in balances of the overall relationship.

Banks also need to realize that the number of accounts and even the average balance may not be a good indicator of what it costs to serve a customer. Some customers write five checks per month, while others write 50. Some use only one or two delivery channels, while others use several.

It is less costly to retain and work with an existing customer than it is to attract new ones. Unfortunately, because banks' marketing costs have increased, customer break-even points are longer, and the need to avoid the defection of profitable relationships is critical.

Finally, banks need to be more focused on the market segments of customers. It is easier to tailor marketing and sales programs, and packaging of products, to market segments than to individual customers. ■

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