

MANAGING CUSTOMER VALUE

by [Steve Brown](#)

Banks looking to garner more commercial customers and boost profitability should have two key products in order to compete – 1) cash management services, and, 2) a revolving line of credit. At last survey, more than 70% of businesses said these services were "highly important" to them. While we have discussed cash management in detail in the past, providing a revolving line of credit is important to the overall relationship. We monitor profitability on a product basis and have talked with banks that have produced over a 25% risk-adjusted ROE on their commercial lines in order to distill down what they are doing right. Here is a list of items banks should put into action if they are serious about boosting profitability and capturing more commercial customers. 1) Include a line of credit in your product bundle. If your bank does not have marketing material that describes your commercial product/service suite, then there is room for improvement. Every new commercial deposit customer should be offered a revolving line, assuming credit warrants it. 2) Cross-market the line of credit with cash management services to existing customers. Both are profitable products and together, a 20% ROE is almost ensured. In a profitable bank, cross-sell ratios exceed 30% for these two products. To cross-sell effectively, banks must gather product usage data, derive marketing tactics and then implement them. 3) While we are on the topic of data, banks should track line usage and take the time to understand client needs. While this may seem basic, most lenders cannot recite the details of their client's goals or market strategy. Currently, many banks are also having success with "lifestyle" marketing. This requires mapping and understanding where a business is on their growth cycle and then conducting promotions (marketing, special structures, etc.) to motivate usage. Knowing when your client is looking to open a new office, expand in an overseas market or purchase an important vendor are all important milestones that most likely require financing. Smart banks also map out the lifestyle changes of business principals. This helps the bank understand the right time to market line usage for such things like weddings, college, vacation homes, succession, etc. Banks that make it easy for business owners to draw down capital and replace the funds in the business using debt can stimulate usage. The key to this endeavor is taking the time to understand "critical financing points" and then being proactive by marketing 6-months ahead of the event. 4) Offer both a fixed and floating rate option. This is a favorite tactic of national banks that also works well at community banks. Since almost all businesses benefit by a capital structure that is both fixed and floating, giving customers the ability to draw on a combination line using both interest rate structures is important. Some banks even provide workshops and training to help business owners understand the future of interest rates and their asset structure (in order to better advise clients on what type of debt to use). Customer value management is an emerging field in banking that can generate huge gains for those that get serious about the discipline. If you are interested in learning more and working through successful case studies, save the date and attend our to our next High Performance Bank Workshop. It will be held on Sept 26th & 27th, beachside in Los Angeles. More information on the event will be sent out later this week.

BANK NEWS

Online Banking

A new study finds 80% of people research financial services online and a whopping 87% use online banking services now. An amazing 45% had also used the internet to search for loans.

ATM Machines

The ubiquitous ATM machine turns 40 years old this year and its growth has been explosive. Consider that the total number of ATMs in the U.S. reached about 400k as of the end of last year, up from 140k a decade prior. Interestingly, technology experts say ATMs are rarely profitable, given that they cost from \$9k to \$50k to purchase and \$12k to \$15k per year to maintain. In an effort to expand services and cut costs, banks have been rolling out newer machines that reduce per-check processing costs to 60 cents from \$1.60, allow customers to make deposits without envelopes and cut back the number of people that must touch any given check from 15 to 2. Wells Fargo indicates that roughly 55% of its bank transactions occur through ATMs.

Housing Sector

Subprime lending damage to the sector is expected to increase in coming months, as the number of homes entering foreclosure is projected to top 1mm this year (with about 60% of such homes classified as subprime). In total, some 70% of subprime loans originated last year have prepayment penalties, while over 50% were stated income loans. Adding further stress, it is estimated that about \$400B in adjustable-rate loans to subprime borrowers will reset to higher rates in coming months.

Wal-Mart

Wal-Mart has begun offering prepaid cards with a \$3k limit. Consumers can load cards with cash or a paycheck. Accompanying the card are hefty loading and ATM fees.

Restructure

SunTrust is making a push to boost efficiency by selling and leasing back about 475 branches.

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