STOP CUSTOMERS FROM LOOKING AROUND

by Steve Brown

Independent banks are reporting feeling the pinch from more and more business customers who put them in competition with other banks. While many feel customers are doing this just to improve their pricing, reality paints a different picture.

To find out what drives this behavior, we turned to the results of a recently completed study. In it, some 3,600 small business customers were examined in an effort to try and determine the variables that come into play when they search for a new loan. Overall, 75% of small businesses attempting to borrow, just went to a single bank (their primary relationship). Another 12% tried two institutions, 5% went to three and 4% contacted four. In addition, of those businesses who shopped around, 34% also tried non-bank financial institutions.

The conclusion is that banks don't get shopped as much for price and terms, as they do because customers want to improve their probability of getting their loan approved. In many cases, companies are simply uncertain how lenders perceive their risk profile, so they hedge their bets and shop around to a few more banks just to be sure.

Business customers also understand that searching for a new loan is a costly proposition. They know it takes time to identify and contact potential lenders, provide documentation and finally sit down to discuss loan terms. That is why it is no surprise the study found most customers stay with their primary bank for an average of just over 5Ys. In short, all things being equal, customers would prefer to borrow from their primary bank if possible. Note that this is especially true for companies who have been in business 5Ys or more.

Perhaps the lesson to be learned is that banks may be able to hold onto NIM and customers a bit longer, if they focused more resources on clients who are aging right along with them. Specifically focusing on customers that have been in business 3Ys or more is critical. This very profitable category of customer should get special treatment from the bank, along with personal phone calls, visits and increased attention. This will ensure the relationship is deeply cemented, a key element of retention required by small business customers.

It should also come as no surprise that merger and acquisition activity can drive customers away. Studies find customers of banks who have been acquired (or where account managers have turned over at least twice), are more than 3 times as likely to switch relationships in the following 12 months.

The bottom line is that banks who want to see lower turnover in their small business customers should do a few critical things, as follows: ramp up cash management options, work to understand their business needs and "touch" the customer an average of 12 times per year. In particular, focus on businesses who have been in business 3Ys or more. This group is the most likely to be profitable, use more than 2 financial institutions and be in a geographic area with at least 6 other banks competing for their business.

BANK NEWS

M&A

FNB Corporation ($6.1B, PA) will acquire Omega Financial ($1.8B, PA) for approximately $393mm, or roughly 1.25x book. The combination creates the 5th largest banking company in PA with $8B in assets and 210 branches.

Consolidation

Union Bankshares Corp ($1.4B, VA) announced it will consolidate its Prosperity Bank & Trust Company affiliate with its largest banking subsidiary, Union Bank & Trust.

What Credit Crunch?

In a speech to the House Small Business Committee, Fed Governor Mishkin said that despite recent turmoil in the credit markets, small businesses (firms with few than 500 employees) have found that access to credit "has been robust."

Electronic Link

A recent study found a clear link between electronic billing/payment habits and higher account balances, profitability, and customer loyalty. According to the study, customers who received and paid at least three e-bills online per month: were 86% more profitable than offline customers; carried a 121% higher deposit balance than the average customer; had a 78% lower attrition rate; were 2x as likely to have a mortgage; were 60% more likely to have a savings account; and paid 25% more bills online than other customers.