SMALL BUSINESS CUSTOMERS

by Steve Brown

We talk about small businesses in this publication frequently because so many community banks consider them a core customer and because they are so critical to economic recovery. That is because small businesses represent more than 99.7% of all employers, they employ 50% of all private-sector workers and they provide about 70% of the net new jobs annually. Small businesses account for nearly 53% of all retail sales, 47% of all wholesale sales and 25% of all manufacturing sales. These customers deliver larger deposit balances and take out larger loans than consumers, so this customer set is often the main driver of bank profitability.

As bankers seek out new clients or try to expand a relationship with an existing small business client, understanding certain key aspects are critical so we explore them here.

A study by the National Federation of Independent Businesses finds 91% of small business owners have been either able to obtain the credit they wanted or they had no interest in borrowing at all right now. The latter point isn't surprising when you consider most small business owners say they have seen a 20% to 40% drop in business during this economic downturn, so few are interested in expanding right now. Also of note, the same study found only 4% of these owners said "finance" was their top business problem, while the #1 issue cited was "poor sales." Until sales increase, look for lending opportunities to remain thin.

Another area related to this customer set that community bankers should be aware of relates to communication. A study by the ABA found that only 2% of small business owners who had talked to their banker about the recession said their business banking relationship had deteriorated. That compares to 21% of small business owners who did not talk to their banker about the recession. Customers remain anxious out there, so sending your teams around just to talk over a donut and some coffee can work wonders to keep relationships strong and keep your pulse on what is going on with your clients. This is a huge step and a competitive edge, because studies also have found recently that only about 15% of small business owners say their primary banking relationship has been proactive in discussing the impact of the recession on their company.

Technology is also an important part of any small business. In fact, the SBA reports nearly 73% of small businesses have internet access and 81% have a home page, so most of the basic hurdles have already been overcome. Businesses are interested in expanding technology opportunities beyond these basics, however. A new survey finds 51% plan to purchase new software by the end of the year and 68% are going to buy new hardware. Of those planning on buying hardware, 56% plan to buy a desktop, 55% will purchase a laptop and 45% are looking for a new server. Having a marketing program or providing a tear sheet to small business owners with tips of what to look for in this area might be a good way to get more traffic in the branch and open up cross sell opportunities. On the software front, nearly 32% are seeking to improve security, so instead of giving away toasters, maybe another alternative could be the latest offering from McAfee or Norton with a new account or new loan.

No matter the sales opportunity, we hope these small tips help your community bank as you seek out new small business customers in your own city or town. Times are tough, but small businesses and community bankers are tougher, so keep up the fight and continue to focus your efforts on whatever you find to be the most effective during these tumultuous times.

BANK NEWS

Reform Bill

The Senate passed the financial regulatory reform bill (S. 3217) without the Manager's amendments (that would have filled in some needed holes), so it now goes to the House to be reconciled with that version (HR 4173).

Banks 1Q

FDIC insured banks posted an $18.0B profit in the quarter with 19% taking net losses, down from 22% last year. This is largely a result of lower loan loss provisions, down 16% to $51.3B. ROA grew to .54%, up from .16% in the 1Q 09.

Loans 1Q

According to the FDIC, noncurrent loans and leases increased to 5.45%, a 27Y high. Chargeoffs totaled $52.4B, down from $53.6B in the 4Q.

Hedging 1Q

According to the FDIC, 1,045 financial institutions in the US now use hedging instruments. That is just a touch higher than 1 in every 7.

Problems 1Q

The FDIC's troubled bank list jumped 73 to 775 in the 1Q, totaling $431B in bank assets. The DIF rose to a -$20.7B from $20.9B in the 4Q, of which $40.6B is held as contingent loss reserves.

Consumers

Analysis by S&P Rating Services and Experian PLC finds 1st and 2nd mortgage defaults dropped to 3.7% and 2.5%, respectively over April. Defaults for auto loans also declined, falling to 1.9% from 2.4%. However, defaults on bank cards rose from 8.9% to 9.1%.