

## Evolution of Customer Understanding

by [Steve Brown](#)

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According to Encyclopedia Britannica, giraffes were known to the ancient Egyptians and Greeks, and many were exhibited in the old Roman games. Giraffes were thought to be a mixture of camel and leopard and were called camelopards back then.

We've come a long way since then in our understanding of certain animal species and our understanding of small business customers has also evolved over the years. This is in part because there are many more ways to capture and analyze information about what business owners want. Using this data, we can better tailor products and services to meet the demands of this important customer base.

Take check writing, for example. One recent MineralTree study found most small businesses are stuck in the Dark Ages when it comes to payments but they don't want to be. The survey of 300 small and medium-sized businesses in Sep found 75% of respondents still make the majority of payments by paper check. What's more, 68% said they would be interested in an online payment system that eliminates the need to write checks. Among small and mid-size businesses that use accounting software like QuickBooks and NetSuite, the percentage of those interested jumped to 89%.

According to MineralTree, small businesses need two critical features that current bill pay tools offered by banks don't have. The first is integration with accounting systems and the second is security and fraud protection. This is something to consider when you're discussing what types of products and services to provide small business customers.

A recent J.D. Power U.S. Small Business Banking Satisfaction Study provides another window of insight into the needs of small business customers. Overall satisfaction among these customers declined this year, but this time around, fees weren't the drag. Instead, it would appear that the crux of the problem is that banks are not doing all they can to make it easier for small business customers to manage their finances.

This presents another opportunity for community banks to step in and offer needed solutions. Small businesses often need an advisor who can be an advocate for their business and who can help them organize and make their lives easier. Start by reaching out to your current clients and asking what you can do to make their business run more smoothly. The answers may surprise you and open up new revenue opportunities.

Small businesses, of course, are not a homogeneous group so they have myriad needs and desires. But based on a plethora of publically available data, we have more information than ever on what they as a larger group generally want and don't want. The trick, of course, is to use this information when coming up with new products and services to appeal to them. Cost is an issue but know your customers will pay for services they find particularly meaningful. It's why new car buyers are willing to pay more for leather seats and why they'll often spring for an extra coat of special paint.

While there are certain constants for small business owners like a desire for good service, other demands change over time. Knowing this can help your bank as you strive to understand these

changes and adapt accordingly. It isn't necessary to take our word for it however, as you can just ask the next camelopards you see.

# BANK NEWS

## M&A

Northwest Savings Bank (\$7.9B, PA) will acquire financial advisory, wealth manager and employee benefits firm Evans Capital Management for an undisclosed sum. Evans manages or administers more than \$240mm in assets.

## M&A

Bank investor Kenneth Lehman reportedly will buy a controlling stake in Marine Bank & Trust (\$138mm, FL) for an undisclosed sum. Marine has been operating under a C&D since March for unsafe lending practices and insufficient capital.

## M&A

Summit Credit Union (\$147mm, NC) will acquire United Chemi-Con Manufacturing Employees CU (\$4mm, NC).

## Q3 Industry

The FDIC reports institutions saw a YOY decline in earnings in Q3 (the first in 17 quarters), mostly due to large bank litigation reserves. During the quarter: 49 institutions (-0.7%) went away (leaving 6,891); 16,913 full time equivalent employees were terminated (-0.8%); total loans grew 0.9% and reserves declined 4.3%. By loan category based on dollar volume in millions, most of the growth came in other (+30,748), nonfarm nonresidential (+9,200), C&I (+8,382), credit cards (+6,785), construction (+3,639) and farm (+2,924). Categories that declined were single family residential (-\$13,743) and home equity (-\$10,903)

## Q3 Community

A close look at some key metrics for banks under \$1B in asset size using FDIC data finds the following averages for Q3: asset yield (4.26%); cost of funding (0.56%); NIM (3.71%); ROA (0.83); ROE (7.34%); efficiency ratio (74%); loan loss reserve (1.69%); loan to deposit ratio (70.1%).

## Q3 Texas

The latest analysis finds the number of institutions with a Texas Ratio above 100 fell 4% to 235 in 3Q vs. 244 in 2Q. The data shows credit quality is slowly improving.

## M&A Survey

A survey by Crowe Horwath of bank executives finds 58% say it is more difficult to get regulatory approval for an acquisition than 5Ys ago, 52% say they want to make an acquisition in the next year (only 5% want to sell) and 41% say they expect Basel III capital rules will increase mergers.

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