



Make a Power Play for Small Business

by [Steve Brown](#)

Springtime is a great time for hockey fans to enjoy action on the ice as the finals of the NHL wrap up the season. Whether you are a fan or not, most people know that some of the most exciting moments take place during power plays. This happens when a team has more players on the ice than its opponent - typically when one or two players are cooling off in the penalty box after a bit too much aggressive play got them kicked to the "time out" corner. For the team with more players on the ice, this is a prime time to mount a major offensive strike, as the opposing team is at its weakest.

One area where community banks can gain traction in their markets is by making a power play for small business customers. The focus should go beyond just bringing in new deposits and loans though. Bankers will want to broaden their focus and consider giving small businesses more tools to efficiently run and grow their business. You can do this by providing services and assistance beyond the basics.

A recent study from TD explored areas where small businesses felt they needed help. According to the survey, many small business owners (even those who said they were confident about finances, human resources and other aspects of business management) are nonetheless looking for advice on how to run their businesses. According to the study, Millennials are most likely to seek insights on how to expand their business and how to handle finances or accounting, while Gen Xers and Baby Boomers are most likely to want help with marketing or advertising strategies for their business.

This makes a compelling case for a power play by community financial institutions. The survey also found that the majority of business owners (73%) do not have a financial advisor or dedicated banker to assist them in running the business. Instead, most small business owners go to family and friends for advice (45%), followed by the Internet (36%).

At the same time that small business owners are looking for help, banks are looking for ways to generate fee income. In our conversations with community banks, we have heard of a number of interesting avenues that can generate income and provide needed services. One bank we spoke with acquired a payroll company that already worked with small businesses in the area. The bank had operational accounts with many of the payroll company's customers, plus brought more business banking customers to the payroll service. Still another bank expanded its thriving merchant services business and asked satisfied customers to refer their services to peers.

These are just two examples of services that banks can offer that complement core small business offerings and generate fee income. So often management teams seeking ways of generating fee income think primarily in terms of raising checking account or overdraft fees, but other options are available. Raising fees often creates customer dissatisfaction and can be the focus of regulatory scrutiny as well, so it can end up being a net negative.

Research consistently shows that small businesses are willing to pay for services that increase convenience and save them time. Look around in your market and consider whether there might be a

symbiotic relationship you could capitalize on through perhaps a targeted acquisition of another business that serves your customers. There's much for banks to learn from the power play concept when it comes to providing services to small businesses, so keep thinking and strategizing as you seek opportunities. After all, the opportunity to score on a power play is too big to pass up.

BANK NEWS

Less Effective

A Deloitte survey of global risk managers finds: only about 44% say they are extremely or very effective when it comes to managing third party risks; 42% about cybersecurity; 40% said data integrity and 37% said model risk. Clearly these are key areas institutions can continue to improve.

Overdraft Fees

CNBC quotes SNL Financial research that indicates 600 banks analyzed received about \$2.5B in overdraft fees. The 3 largest US banks captured \$1.1B of that.

Leadership Skills

Accenture research worldwide finds that respondents say leaders should accept new responsibilities (54%); continue learning (48%) and mentor others (42%).

Private Again

The Dutch government said it will sell off ABN Amro starting later this year, after taking it over during the credit crisis.

Surge Deposits

Research by the Fed finds the percentage of non-maturity deposits (NMD) to assets for banks on the west coast has jumped from 42% in Q1 2009 (about 50% in Q1 2006, pre crisis) to 63% as of Q1 2015. Regulators are quite concerned about a potential reversion to the mean that could occur when rates rise, so bankers should be stress testing liquidity sources. One suggestion is to drop NMD back to the 50% and 42% levels vs. assets to see what would happen and to ensure you have a good plan in place. Forewarned is forearmed, so our advice is to prepare and test to be sure no significant issues surface and to refine your game plan.

Volatility Risk

Investors and regulators alike have expressed concern about the lack of liquidity in markets after changes following the credit crisis. Large players no longer support the markets with their balance sheets, so prices can swing wildly from time to time. The Fed is particularly concerned about this once they begin to raise interest rates and money begins to shift.

Small Biz

The SBA reports 36% of small business owners are women, just over 9% are run by veterans, 28% are family owned and 52% are home based.

CFO Thoughts

A Deloitte survey of CFOs at major companies worldwide finds among other things that: optimism in North America has reached its 2nd highest level and has been positive for 9 quarters; 59% say the economy is good and 64% believe the economy will be better next quarter.

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