The Case for Cross-Selling

by Steve Brown Topics: Relationship Profitability, ProfitIntel, Cross-selling

On November 13th, a British man left the beaches of Senegal bound for Brazil via the Atlantic Ocean in a swim suit and goggles. With the luck of the currents, few marine life encounters and good weather, he hopes to arrive in Brazil by March. After 3Ys of training and fundraising, Ben Hooper is taking on this 1,635 nautical mile swim challenge for the sake of his daughter and his affinity with water. As we think about Ben's journey, we are reminded of the banking industry's challenge to sell services to customers, without the perception of shark-infested waters.

Cross-selling has a bad reputation these days, thanks to the Wells Fargo brouhaha. Still, it's common across industries all over the place (would you like fries with that hamburger, a tie with that shirt, etc.), because it is a pretty efficient strategy to increase business with existing customers. After all, enlisting new customers comes at a much higher premium - 5x to 30x higher!

Take Bank of America for example. A few years ago, the bank decided to improve its services at the branch level. At their local bank, customers find their usual bank tellers plus 3 onsite specialists now: the home loan officer, the small business banker and the financial adviser from Merrill Edge. These experts work with warm leads given by other employees, who know that Mr. Smith is looking for a mortgage or that Mrs. Lewis recently inherited a substantial amount of money.

According to the bank, these employees are not paid commission for new accounts. Instead, they receive a salary, and with that, their goal is to answer the needs of the customers. They may offer higher than usual rates on saving accounts or a good discount on the closing costs of the home loan to keep the business within the branch. The goal is to make the bank the preferred bank of the customer, and for the customer, to create a trusted point of contact for financial needs.

Research also finds that many bank customers are happy having multiple products at one institution. In a survey by A.T. Kearney, bank customers had an average of 2.7 products at their primary bank. However, at the 3 largest banks, that number was 2.8 and at medium to small banks, that number was 2.2 products - about 21% lower. This could be good news for community banks as there is an opportunity to cross-sell or it could simply point to the Wells issue. Only time will tell.

Looking at a specific $3B bank, we find that 5Ys ago, this bank landed a new CEO. That CEO started implementing new cross-selling measures. At that time, the average customer had less than 4 products, but after streamlining internal referrals as a way to cross-sell more efficiently, the bank reports the average customer has more than 6 products. That is a huge increase and the CEO notes that no incentives were tied to the number of products sold by the branch employees.

The business case for cross-selling is strong and as we stated, spans across nearly every US company. As long as unsuitable incentives are removed from the equation, community bankers should feel comfortable doing so. Reward employees for keeping loyal customers and for overall performance, including customer experience. If cross-selling is done with this type of criteria and others, perhaps it helps both the customer and the bank swim together in turbulent seas toward an end goal.

BANK NEWS

M&A Activity

1) Radius Bank ($850mm, MA) will acquire the equipment finance business of NewStar Financial for about $140mm in cash. The move gives Radius about $133mm in equipment finance receivables.

M&A Deal Off

1) Pinnacle Bank ($669mm, GA) and First Covenant Bank ($190mm, GA) said they have mutually agreed to terminate their previously announced acquisition of First Covenant by Pinnacle.

Online Sales

Research by Slice Intelligence that looked at more than 1 million online receipts from Thanksgiving through Cyber Monday finds the top places people shopped were as follows: Amazon (30.9%), Best Buy (7.4%), Target (4.4%), Walmart (4.1%), Macy's (3.2%), Kohl's (2.7%), Nordstrom (2.5%), Apple (1.5%), J Crew (1.3%) and Home Depot (1.2%).

CRE Risk

Regulators are increasingly concerned that higher interest rates would increase debt service burdens and capitalization rates on commercial real estate (CRE), putting pressure on prices and negatively impacting the sector. In addition, regulators are looking closely at appraisals, amid concern banks have become overly reliant on CRE loan-to-value ratios to mitigate risks posed by weaker covenants, longer maturities, and other concessions. Bankers should be ramping up stress testing activities and taking action to protect the bank against this potential eventuality.

Chat Usage

Research by Luxury finds 22% of consumers say they have used chat apps to talk with their bank about such things as activating an account or checking on their account balances.

Inflation

Fed Cleveland research finds the odds of hitting 2% inflation over the next 3Ys are less than 50%. In theory that should keep a lid on rate hikes at some level, although the models used likely do not include the impact of a Trump presidency and increased infrastructure spending, so bankers should continue to be wary.

Gig Economy

Research by the Fed on contingent workers (contract, temp, on-call, or freelancer) finds this group now makes up 16% of the workforce.