

*Despite a challenging market, a Novantas commercial banking survey reveals significant opportunities to improve middle market customer acquisition.*

## Sharpening the Focus in Customer Acquisition

BY MICHAEL RICE AND STEPHEN BAIRD

**W**hile customer acquisition is a constant priority for middle market commercial bankers, the quest has assumed high urgency in today's volatile market. There is a heightened potential for client turnover as institutions work through capital difficulties and wrenching mergers. And the rising priorities of deposit growth and fee revenue generation have commercial bankers knocking on new doors for new reasons.

The question, however, is whether tried-and-true business development practices will provide the full measure of lift that's needed right now. Should skilled relationship managers simply be exhorted to broaden their outreach beyond credit products, for example, without any changes in their tools or training? Should RMs, treasury management officers, and business development officers continue to allocate their time in the same way?

To explore these and other questions, Novantas conducted a

benchmark survey of 10 leading commercial banking companies, including two of the top 10 U.S. banks, six large regional banking companies, and two smaller regional banks. Participants included division presidents, chief administrative officers, chief marketing officers, segment executives, division managers, research directors and regional segment heads.

The survey revealed a variety of progressive practices but prominent gaps in the extent to which they are being implemented, suggesting both needs and opportunities for performance improvement in multiple facets of customer acquisition:

- ❖ There has been an emphatic sales shift toward deposit and treasury management products. But such initiatives often go unsupported. Too often, there is no fresh training for RMs and no systematic enlistment of treasury management and business development officers.

- ❖ At a time of renewed emphasis on sales management, almost half of respondents have not standardized customer acquisition processes among RMs, and nearly two-thirds have not standardized across geographic regions.

- ❖ On average, relationship managers are spending more than 40% of their time – the equivalent of two full days a week – on activities other than customer acquisition and cross-sell. This

highlights a pressing need to reallocate marketing and administrative responsibilities so that RMs can devote more of their valuable time to customer-facing activities.

❖ Although proactive customer calling receives the lion’s share of resources and management attention, survey respondents indicated that fully half of new business is acquired through inbound channels such as internal bank referrals, prospect inquiries and referrals from established clients. Some banks may capture significant upside by nurturing these passive inbound conduits.

**CUSTOMER ACQUISITION STRATEGY**

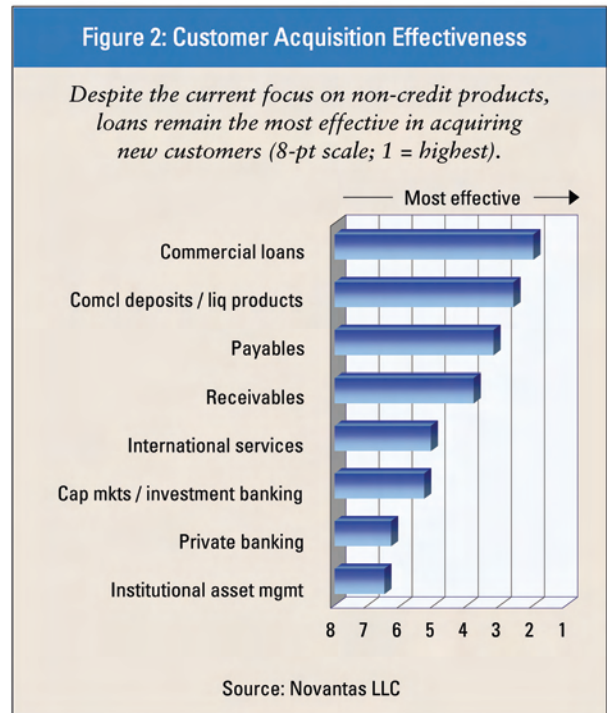
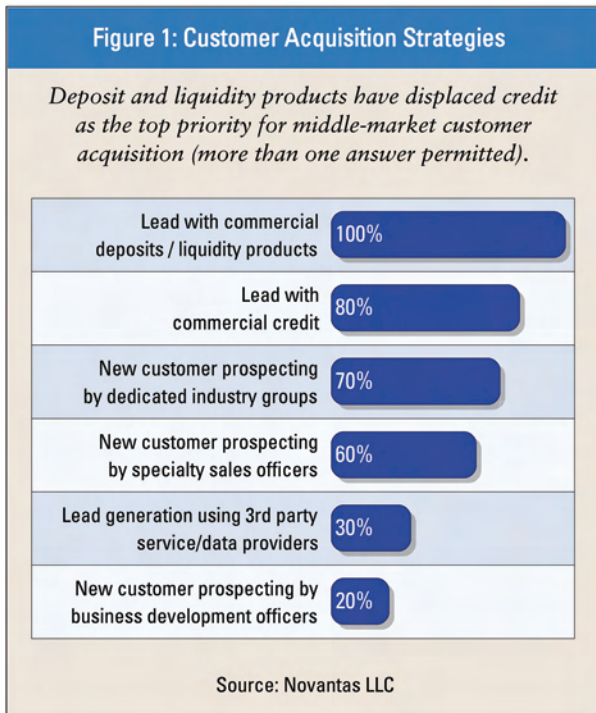
Among the 16 commercial banking executives who participated in the Novantas survey, the overwhelming majority cited customer acquisition as being among their top priorities, and a few said it is the number one priority.

Traditionally in commercial banking, the customer outreach centers on loans, but the survey indicated an important shift toward non-credit products. Asked to name the blend of strategies used in acquiring new middle market banking relationships, respondents mentioned deposit and liquidity products above any other category, even commercial credit (Figure 1). Nevertheless, additional feedback on what’s actually most effective highlighted the huge challenge in shifting away from loans, as it turned out that commercial credit was still ranked as the most effective customer acquisition tool (Figure 2).

One question that immediately arose from these findings is whether loan-oriented RMs are adequately prepared to purvey the fuller suite of commercial banking products and services. Heavily influenced by credit-centric training and incentives, and unfamiliar with increasingly complex liquidity management offerings, RMs often find it difficult to expand the sales frame of reference beyond loans.

Another immediate question is how commercial banks can make greater use of other sales avenues and resources at their disposal. Specialty sales officers, for example, are not being used in new customer acquisition about a third of the time, while business development officers are not being used in new customer prospecting about 80% of the time. Similarly, almost three-fourths of respondents say they are not using sales leads generated by third party service or data providers.

Use of specialty sales resources is particularly pertinent when considering the very large number (>150,000) of U.S. companies with \$10 million to \$100 million of annual sales, a size category where it is somewhat harder to justify high-touch service but rich in aggregate demand for commercial banking products and services. Guided by the right market analytics and sales leads, specialty sales and business development officers arguably could play more of a leading role in sales prospecting for transaction-oriented banking products and services.



**SALES MANAGEMENT**

One of the delicate balancing acts in commercial banking sales management is taking full advantage of the expertise and independent initiative of relationship managers while also capitalizing on system-wide initiatives, insights and tools. RMs, who at the zenith of their influence controlled almost all aspects of the customer relationship, naturally tend to be wary of centralized initiatives that may encroach on their exercise of personal discretion. And especially in good times, banks feel no particular inclination to insert themselves into the affairs of productive field banking officers.

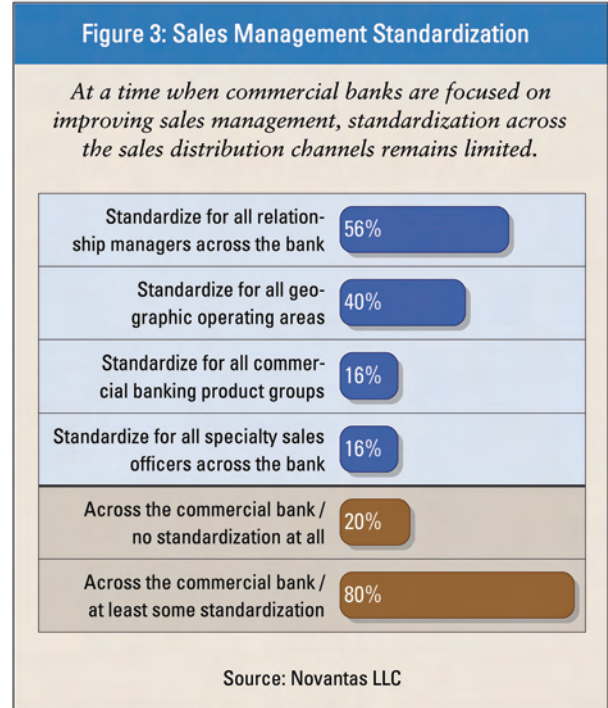
These are not good times, however, and the Novantas survey provided fresh evidence of the extent to which commercial banking sales management continues to defy standardization. Among survey respondents, 44% report no standardization of the customer acquisition process among relationship managers; 60% report no standardization across geographic operating areas; 84% report no standardization across all commercial banking product groups; and an identical 84% report no standardization among specialty sales officers (Figure 3).

To be clear, these figures by no means constitute a call for sweeping standardization of a process which, in essence, relies heavily on personal rapport and individual initiative for its very success. Yet there are particular areas where commercial banks and their representatives would benefit from systematic processes:

**Targeting and Leads Generation.** In our work, we have seen that top players constantly work to refine their understanding of prime customer groups, and they use this knowledge to pursue key pockets of opportunity in the overall market. Centralized databases, drawing on internal and external information, are used to set priorities and coordinate the efforts of various teams of relationship managers. Leaders also crystallize the critical contact details, including identities, responsibilities and likely customer needs.

Such efforts remain rare, as reinforced by survey findings that lead qualification and prioritization largely remains in the hands of individual relationship managers.

This is a situation worth improving, given that customer relationship potential has such a strong bearing on RM productivity. After all, the top one or two customer deciles often comprise more than 100% of total group profitability, implying that the



numerical majority of customer relationships either lose money or break even at best.

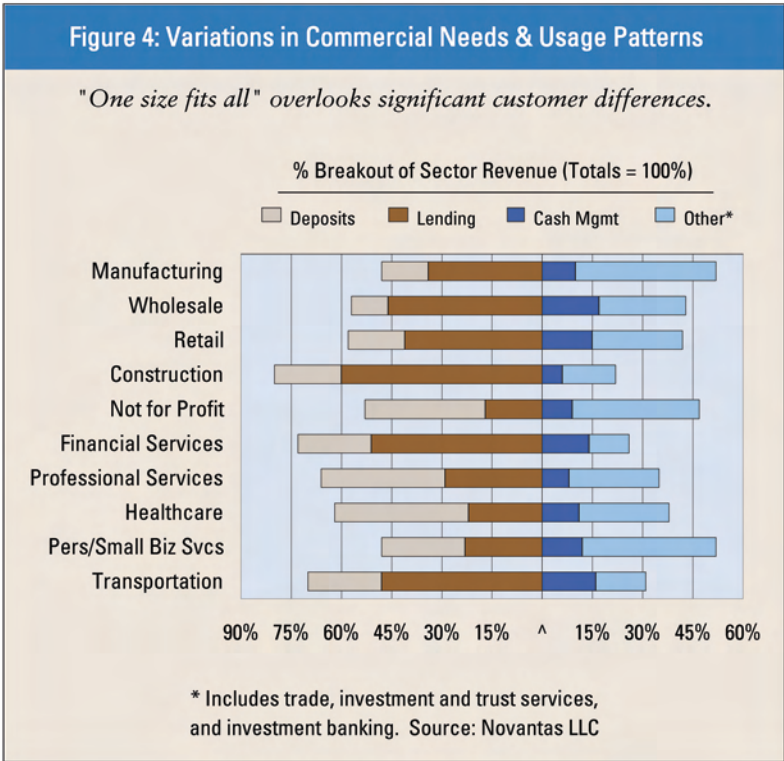
In such circumstances, RMs and other sales officers are at conspicuous risk of squandering time on low-potential commercial prospects, which have neither the appetite nor the wherewithal to avail themselves of higher-margin offerings, such as cash management and trade services.

The sheer act of prioritizing effort based on client potential can make a visible difference in sales productivity. And once a well-crafted master prospecting list comes into view, managers gain valuable added context about the potential in each market, facilitating the establishment of priorities and performance expectations.

**Segment-Tailored Offers.** While sales outcomes can be described in dollars and cents, the driver of these results is the distinctive fulfillment of varied customer needs. What’s needed is systematic needs analysis, leading to the creation of targeted outreaches and segment-tailored offers.

Within commercial banking today, however, there still is a pronounced tendency to make blanket offers, with a complete package of products and services thrust at each prospect. Though perhaps efficient from an internal production perspective, one-size-fits-all marketing clashes with the realities of a highly varied clientele.

Novantas research shows a wide variation in client purchase propensity depending on size, industry concentration, geographic locale and other



appropriate returns for the extension of the bank's balance sheet.

**INBOUND CHANNELS**

At a time when most commercial banks continue to focus on the role of the relationship manager in customer acquisition, the Novantas survey highlighted an enormous additional business conduit coming under the heading of "passive channels." Internal bank referrals, for example, accounted for 16% of new clients among survey respondents, and referrals from established clients supplied an additional 14% of new business (Figure 5).

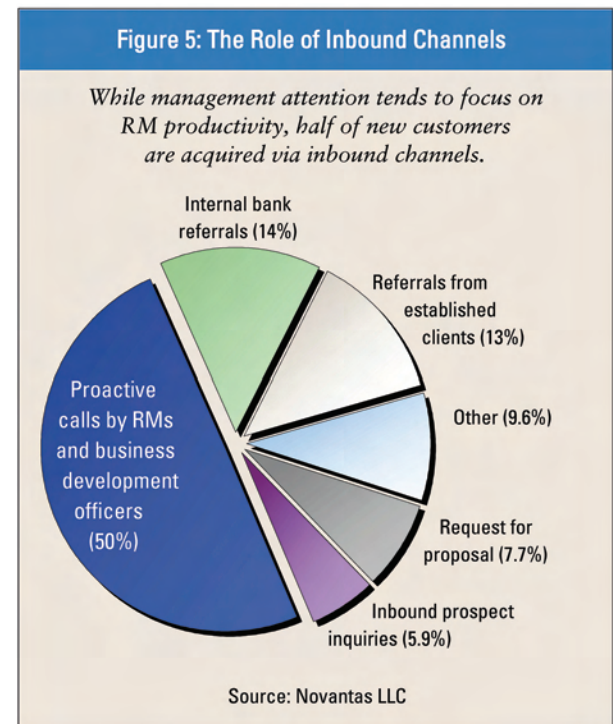
One immediate question arising from these findings is whether enough is being done to cultivate internal referrals. Among survey respondents, 40% said their bank did not have an incentive program for internal customer referrals.

Among the 60% of respondents who said their banks do make use of incentives, the range of options included one-time sales credits, cash bounties, and inclusion of referral productivity in annual performance goals. While such measures are appropriate, many proactive banks still would benefit from a thorough review of the referral conduit for new business.

factors (Figure 4). Within the segment of middle-market companies providing personal and small business services, for example, an average of 23% of service revenues earned by the typical large commercial bank are derived from lending and 25% from deposits. The needs and possibilities in that customer group clearly differ from those of the utility sector, for example, where an average of 51% of commercial banking revenues are derived from lending and 10% from deposits.

Equipped with a suite of such analytically-derived insights, RMs and other sales officers can focus their prospecting energies and make the most of each customer interaction. Scientific marketing tools can offer invaluable guidance in the design and promotional positioning of products and services, needs analysis and wallet modeling, anticipating purchase propensity, and solution-based selling.

**Pricing.** In prior studies of both commercial loan pricing and commercial deposit pricing, Novantas has found what can only be described as wild variations in interest rates, largely driven by the lack of a documented decision framework for pricing. This missing structure deprives the institution of the opportunity to optimize margins and balance formation. Additionally, as is more of a conscious consideration in the current market, it undercuts the urgent priority of winning



From a management perspective, internal referrals largely function as a marketing exercise, with various business lines comparing notes on crossover customer segments and the circumstances in which capabilities residing elsewhere in the bank can be presented to the client. Along with identifying priority needs and product possibilities, the banks most successful at cross-selling also work on hand-off arrangements to assure that customers are smoothly ushered among different lines of business.

### SALES FORCE PRODUCTIVITY

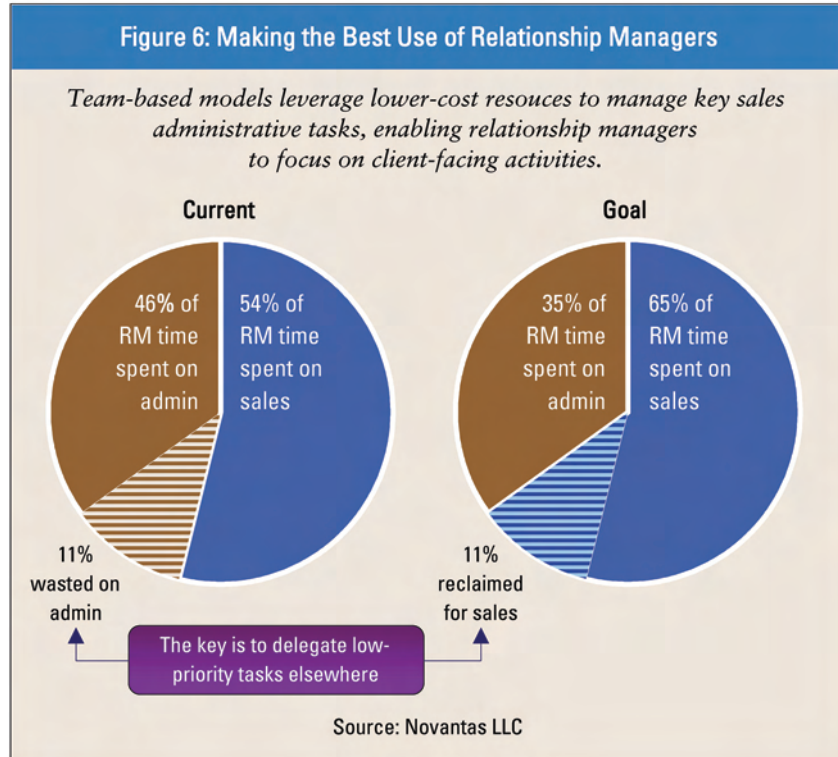
Though progressive marketing concepts and tools open up a new universe of possibilities for middle market commercial bankers, additional questions must be addressed if companies are to make the best use of sales resources.

Most importantly, should RMs continue to manage the sales process from end to end? Even if relationship managers are exercising superb judgment on the use of their time, that's still suboptimal if some of the balls they are juggling shouldn't be in their hands in the first place.

Underscoring the point, relationship managers have 46% of their time chewed up by administrative and general marketing activities, according to participants in the Novantas middle market customer acquisition survey (Figure 6). Specialty sales officers fare only somewhat better, with a 31% administrative time commitment.

Increasingly in various industries, sales divisions are creating what might be termed

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customer relational divisions of labor. It's not necessary for the senior officer to handle each and every aspect of business development. Certain types of cold-call prospecting, for example, can be assigned to dedicated teams, sometimes even junior staff operating within call centers. In particular, treasury management officers can play a more active role in contacting customers and structuring more complete solutions that enhance cross-sell.

Such strategies are particularly useful at the low end of the middle-market, which is populated by myriad smaller companies with more modest requirements, where efficiency in sales and service is most vital to customer relationship profitability.

Consider a group of relationship managers, each spending a fourth of his or her time on “cold” lead generation. Drawing on a case study from a bank serving the low end of the middle market, one 20-person regional team within this institution typically expects to generate from 80 to 100 new prospect appointments per month, with 30 to 40 subsequent requests for proposal, and ultimately, from 12 to 16 closes.

Suppose, however, that instead of having 20 officers partition a fourth of their time for prospecting, the equivalent of five full-time positions, the bank simply dedicates five individuals to full-time prospecting for new customers (leaving

the other 15 officers to concentrate on warm leads and established customers).

When dedicated officers are equipped with the right tools, our research indicates a potential doubling of productivity, including appointments, RFPs and closes, compared with the part-time efforts of a much larger team.

Among the survey respondents, less than a third reported that they make some use of dedicated business development officers. None concentrate on specific industries, although a third focus on specific customer segments.

### KEY OPPORTUNITIES

In reviewing the full range of survey findings, two major areas of opportunity to improve middle market customer acquisition emerged. The first is to re-focus customer acquisition strategies, and the second is to improve sales productivity.

**Strategy.** There seems to be a disconnect between the stated priority in customer acquisition, which is leading with deposit and liquidity products, and banker feedback that credit products actually remain the most effective. It will be problematic to rely on the individual initiative of relationship managers to rectify this imbalance.

An orchestrated campaign to improve the sale of transaction banking products has several critical components, including: 1) identification and analysis of the major customer segments that will

be most receptive; 2) a review of product design, packaging and pricing; 3) coordination of all sales channels, both proactive and passive; and 4) providing the necessary training and tools for RMs and other sales officers.

**Sales Productivity.** The Novantas survey provides fresh evidence that relationship managers continue to expend energy on activities that, while essential to overall sales and service, could be economically delegated elsewhere. By supplying tools and resources for leads generation and prospecting, making greater use of sales specialists and offloading administrative chores, banks can free up their talented relationship managers to spend more time on sales and client management.

Another productivity improvement opportunity lies with optimizing inbound channels. To be sure, various survey respondents say they are cognizant of the important contributions made by passive conduits such as internal and client referrals. Yet it seems clear that more resources and management attention would be warranted in many cases – especially given that half of all new customers arrive at the commercial bank by means other than responding to proactive outreach.

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