Small Business Banking Customers
An Attractive Segment for Organic Growth
Small Business Customers Are Among the Most Profitable Segments for Most Banks

Gross Margins by Small Business Market Segment

Note: Margin calculation includes origination, maintenance, and transaction costs.
Source: Booz & Company analysis
Relatively Few Small Business Customers Are Extremely Satisfied with Their Bank, and That Percentage Has Recently Declined

Percentage of Small Businesses Extremely Satisfied with Their Bank’s Ability to Understand Their Needs and Recommend Products

- Satisfaction levels vary by type of bank
- Lower satisfaction for larger banks

Source: Aite Group
Banks Believe They Have Made Improvements in Serving Small Business Customers

Banks’ Ratings of Their Own Evolution in Ability to Understand Small Business Needs over the Past Three Years

- Very Strong Improvement: 16%
- Strong Improvement: 37%
- Some Improvement: 47%

53% of banks believe they have strongly or very strongly improved selling to small businesses.

- All banks say they have improved their ability to meet small business customers’ needs at least somewhat over the past three years.
- No bank considers its abilities to have diminished over the last three years.

Source: Aite Group
This Disconnect Is Creating Growth Opportunities for Banks as Customers Look to Switch

Source: Booz & Company data

Propensity to Switch from Primary Provider (2010)

- National Banks: 31%
- Regional Banks: 23%
- Community Banks: 13% for <US$1 million sales segment, 14% for $1 million - $10 million sales segment

Reasons for Switching/Considering Switching (2010)

- Poor customer service/problem resolution: 43%
- High fees: 38%
- Branches not convenient: 22%
- Products did not suit my needs: 20%
- Poor rates on credit and deposits: 15%
- Some other reason: 14%
- Worried about bank’s financial stability: 10%
- Not trustworthy: 4%

Source: Booz & Company data
Capturing the Growth Opportunity Requires Deep Understanding of Target Segments, Channel Choices, and Products/Services

Target Segments

- What are the needs of our market’s segments?
- For which segment(s) should we build a value proposition to attract new businesses and those willing to switch?

Channel Choices

- What channels do our target segments prefer/primarily use?
- What sales/service delivery model best aligns to their preferences and needs?

Product/Service Portfolio

- What are the products and services that resonate with our target segments?
- What is the most efficient go-to-market model?
### Target Segments

Capturing Switchers Requires an Understanding of Segments ...

<table>
<thead>
<tr>
<th>Segment Name</th>
<th>Segment Characteristics</th>
<th>Most Important Needs</th>
</tr>
</thead>
</table>
| Credit Seekers    | - Complex and sophisticated businesses  
                     - Average satisfaction  
                     - Most likely to use many banks  
                     - Place a high value on bank relationships | - Access to credit  
                     - Competitive rates  
                     - Trust in the bank |
| Passive Customers  | - Value banks that resolve issues and value them as customers  
                     - Most satisfied  
                     - Place a high value on bank relationships | - Quick and amiable remedies for problems  
                     - Bank that values their business  
                     - Trust in the bank |
| Convenience Buyers | - Most likely to bank at the nearest branch  
                     - Average satisfaction  
                     - Likely to use one bank  
                     - Place a low value on banking relationship; bank at closest branch | - Convenient branches  
                     - Easy to do business with  
                     - Quick and amiable remedies for problems |
| Price Shoppers     | - Shop on price and ease of doing business  
                     - Least satisfied  
                     - Likely to use one bank  
                     - Place a low value on banking relationship; shop on price | - Competitive fees  
                     - Competitive rates  
                     - Technology to bank wherever, whenever |

Source: Booz & Company analysis
Booz & Company

**... in Order to Create a Value Proposition to Meet Their Needs**

<table>
<thead>
<tr>
<th>Needs Category</th>
<th>Need</th>
<th>Credit Seekers</th>
<th>Passive Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote and support ease of doing business</td>
<td>Problem resolution</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ease of doing business</td>
<td></td>
<td></td>
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<tr>
<td>Provide meaningful customer engagement</td>
<td>Financially stable</td>
<td></td>
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<tr>
<td></td>
<td>Trust</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Values my business</td>
<td></td>
<td></td>
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<tr>
<td>Price rates and fees competitively</td>
<td>Competitive rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitive fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offer convenience and access</td>
<td>Technology</td>
<td></td>
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<tr>
<td></td>
<td>Convenient branches</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Business branches</td>
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<tr>
<td>Support client growth</td>
<td>Access to credit</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Delivers solutions</td>
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<td></td>
<td>Product breadth</td>
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<tr>
<td></td>
<td>Knowledgeable banker</td>
<td></td>
<td></td>
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<tr>
<td>Make relationship managers available</td>
<td>Local authority</td>
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<td></td>
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<tr>
<td></td>
<td>Banker on hand</td>
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<tr>
<td></td>
<td>Single point of contact</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Well-known name</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis

There may be more than one target.
The Sales and Service Delivery Model Must Be Tailored to Each Target Segment and in Light of Channel Preferences

Archetype Models for Engaging with Small Business Customers

**High Intensity**
(e.g., relationship managed)

- “Adviser-client” model
- Each business owner/operator has a relationship manager whom he/she can contact directly
- Effectiveness of this model is dependent on seamless referral to experts by the relationship manager
- Can be used for Credit Seekers and Passive Customers

**Moderate Intensity**
(e.g., “pod” model)

- Many-to-one “team-client” model
- Integrated “pods” collectively provide holistic support to businesses
- Pods comprise individuals who have a mix of skill sets and who are remunerated as a team
- Can be used for any segment

**Low Intensity**
(e.g., call center model)

- The next available person works with businesses
- Preferential queuing and access can be provided to high-value bank clients
- Preferred clients utilize the same resource base as mass clients but with improved access
- Can be used for Convenience Buyers and Price Shoppers

Choice of model will depend on target segments, value proposition, and economics

Source: Booz & Company analysis
Irrespective of the Model, Best Practices in Sales Force Management Should Be Implemented to Achieve Top-Tier Sales Performance

Components of Best Practice Sales Force Model

<table>
<thead>
<tr>
<th>Client Needs and Sales Process</th>
<th>Build capabilities (tools, training, processes) to identify holistic client needs (examples: utilize client relationship reviews as a cross-sell tool; utilize product partners to proactively “sell the bank”)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Institutionalize prospecting best practices (example: active involvement in organizations)</td>
</tr>
<tr>
<td>Skill Competencies</td>
<td>Enhance skill training for competencies identified as major predictors of success (example: business acumen)</td>
</tr>
<tr>
<td></td>
<td>Assess sales managers against identified core competencies and incorporate into hiring and training practices</td>
</tr>
<tr>
<td>Sales Collaboration</td>
<td>Implement a structured approach to collaboration between lines of business</td>
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<tr>
<td></td>
<td>Enable cross-collaboration through incentives and goals</td>
</tr>
<tr>
<td>Sales Coaching</td>
<td>Leverage best practices to facilitate coaching among peers (examples: pre-call sales planning in team meetings; formal apprenticeship program/peer mentorship)</td>
</tr>
</tbody>
</table>

Source: Booz & Company analysis
Products (e.g., Cash Management) Must Be Customized to Meet the Needs of Specific Client Segments

Source: Booz & Company analysis
Our Approach Will Position Banks to Quickly Capture Incremental Market Share

Organic Growth (Illustrative) Incremental Share Points

- **Target Segments**
  - Conduct market survey to assess right-to-win opportunities and identify market segments
  - Determine gaps in needs offerings for market segments
  - Develop value proposition for segments of focus

- **Channel Choices**
  - Analyze unit cost, customer preferences, and industry trends across customer life-cycle/channel dimensions
  - Determine the optimal distribution strategy

- **Product/Service Portfolio**
  - Create a client needs-driven product suites framework
  - Differentiate pricing by product functionality and volumes
  - Align and streamline the sales process to the product suites

Share Growth

Base Year 0.0%  Year One 0.8%  Year Two 1.0%  Year Three 1.5%

Source: Booz & Company analysis
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Booz & Company senior executive advisor David Meer also contributed to this Leading Research.
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