

# **What Really Counts? People and Revenue.**

## **Hint: It's Easier To Grow Revenue**

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### **Use winning commercial account strategies complimented by the right systems to increase \$\$\$.**

It's really simpler than most folks make it. Start with the end in mind – greater profits. Only two direct paths there – decrease expenses or increase revenue. Decreasing expenses can only take you so far, so it's a good plan to focus on revenue.

### **Give 'em what they want.**

So how can you keep your existing customers, sell them more services, and attract new customers? Give 'em what they want. Actually, "provide" them with what they want and charge them appropriately. Perhaps you have a customer with a small retail or home-based business who could use some legal advice. Have you thought of having an attorney on retainer at the bank, accessible and billable to the customer? With a flexible analysis system you can bill for any service that you can provide. Offering additional creative services will lead the customer to think of the bank more often as a partner in his or her business.

Many focused commercial billing systems work hand-in-hand with core solutions. They are available as a client/server application with browser-based components. Having an account analysis system in place enables the bank to leverage its customer's data in a myriad of ways. For example, such a system can allow the bank to implement the "One-to-One" marketing approach popularized by Pepper and Rodgers Group a few years ago. The approach recommends tying customers to suppliers by "mass customization," whereby each individual's needs are met cost effectively. Equally compelling is the customer's perspective that re-educating an alternative supplier regarding its needs is genuinely unappealing.

### **Hooking the big fish – and lots of minnows.**

A well-developed approach to commercial services can land the big fish as well as lots of tasty smaller ones. To land the smaller commercial customer your system should differentially price classes of services. These classes could be based on annual revenue or any method of classifying your customer base. Using classes such as agricultural producers, contract service providers (plumbers, electricians, etc.), and professionals (attorneys, accountants, etc.) makes it easier to train new account managers on the bank's pricing.

(However, exception pricing at the account level can still be used as needed. It might be necessary to charge a higher rate for a customer whose volumes are so low that the bank would otherwise lose money on the account.)

Attracting and retaining larger companies can require not only different services, but different calling officers as well. The individual in that role should be very knowledgeable about the bank's services – or in some cases the upstream correspondent's services. (Reselling of services makes good sense for smaller institutions wanting to preserve market share. With the right analysis systems in place, the billing component can be achieved with straight through processing, untouched by humans hands, but preserving profitable margins.) Larger corporate customers have needs dictated by their treasury departments such as non-standard billing cycles. In addition they may want the TMA codes\*\* delivered on their statement in an 822 EDI

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\* For more information about Peppers and Rogers Group, visit [www.peppersandrogers.com](http://www.peppersandrogers.com).

\*\* Service codes developed by the Association for Financial Professionals (AFP), formerly the Treasury Management Association, to standardize the references and terms that identify bank services.

format<sup>\*\*\*</sup>. This format enables the corporation to automate the entry of the analysis bill directly into the accounting system. Larger size may mean higher volumes so that tiered pricing, volume discount pricing, and min/max pricing make sense. All are feasible once the right system is in place. The larger customer expects that you are knowledgeable about cash management practices and in a position to contribute to that company's business practices.

Waiting for new business to walk in the door could be a short term way to avoid the stress of battling traffic lights, but actively developing new business by calling on accounts is definitely better in the long run. One key to success is having the ability to model accounts right on your laptop. Analysis systems offer this as a weapon for the road warrior. Now the warrior can enter a prospect's office and pull up a chair saying, "Please let me show you exactly what we are able to do for your business today". The bank's calling officer is technologically savvy and ready to deal with actual prices and proposals now – not several days later. Here technology is a great leveler of bank size; getting new business boils down to one-to-one relationships.

### **There's gold in those hills!**

All of your customers' data provides a wealth of ...well, data – unless you can turn it into useful information. Data mining allows you to impose searches and sorts upon data. You can monitor waives, evaluate calling officer profitability, cross-sell services by identifying opportunities, and spot unprofitable customers. For every loser there is a winner in the stock market – money just keeps changing hands. It is the same with the pool of customers. You want the winners, not the losers. With analysis systems offering profitability reporting, you aren't stuck measuring profitability by activity. You have the actual margins. Even the possibility of turning around a customer about to leave the bank becomes a reality when you can monitor inactivity to gauge if a customer is slowly closing an account.

### **The future of analysis revealed.**

Perhaps you are having a "what if" dream about what you would change in your existing analysis approach if you could. If you are looking at increasing revenue via your commercial customers it could be helpful to gaze into the crystal ball....

A major event, the elimination of "Reg Q", is about to hit the analysis process as traditionally conducted. This will underscore the need for a flexible analysis system. This federal regulation, actually several related laws, prohibits banks from paying interest on corporate accounts, prohibits the Federal Reserve from paying interest on reserves, and places limits on reserve requirement reductions. A bill has already passed the House (HR974) repealing these restrictions and is now under consideration by the Senate. The purpose of the bill is twofold: to help cure liquidity problems for the Federal Reserve, and secondly, to allow small businesses to earn some return on their deposits.

When it becomes legal to pay interest on reserves, the need for cash managers to carefully invest overnight may diminish. If the interest is only paid as a soft credit, and the bank is offering several services to their customers, then high quality services will be a magnet to retain customers. This will open-up an avenue to "barter" services for balances since these services are not taxable to the corporation. Alternatively, if the bank pays interest in "hard dollars", the interest will be taxable and the rates will need to be competitive with other investment vehicles.

Under the new law, allowable withdrawals from NOW accounts will increase from 6 to 24; consequently these accounts may begin to function as the sweep accounts they closely resemble in purpose. Another change will allow the Fed to pay interest on their reserves to encourage banks to maintain balances. However it is the bank's option to pass this interest along to their customers. This, coupled with the removable of a minimum reserve requirement of 3% on the first \$25 million in deposits and 8% on the remainder, indicates that the Fed may want "out" of the check clearing, transaction business. There are adequate third party providers to cover this service.

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<sup>\*\*\*</sup> The American National Standard Institute format for transmitting account analysis statements electronically.

A portion of the bill mandates that an annual banking fee survey occur. This is presumably to reveal the impact of pricing trends following the passage of the law. Of course few situations are as they appear, so it is difficult to predict if the data gathered will be reliable. On a positive note, it does look like Congress is beginning to grasp the important role banks have in the health and stability of our economy.

The new bill has the support of the BAI and the AFP. Twice before similar bills have failed so this is not a fait accompli. Even should it pass, the bill does not become effective for two years. Either way, the analysis climate will change and a new window will open for banks to differentiate themselves in the market.

**Innovative technology makes sense.**

Account analysis functionality is likely to become more accessible, more streamlined and more important as technology joins market demands to magnify the importance of commercial customers to every institution. Certain components are already browser-ized so that a customer may view their analysis statements over the Internet or Extranet from any location. Just as importantly, calling officers can review a customer's performance or answer a question by accessing the same statements via the bank's Intranet. An officer can see exactly what the margins on the account are, so pricing can be more carefully customized to maximize revenue. Statements deployed in this way will save the bank hundreds of thousands of dollars annually in postage and handling fees, while customers receive their statements more quickly. Even better, customers receive an online education regarding questions they may have. Unlike our company, they will not have to wait to mid-month to close the prior period's books.

There exists a genuine opportunity, given the right analysis tools, to secure existing relationships and develop new business among commercial or quasi-commercial prospects. Online brokerages, mutual funds and other competitors for commercial funds are not nearly as well situated to provide the guidance and face time, which banks already present in the community can. Commercial analysis, when well managed, will result in increased fee income and stronger relationships.

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