



Cohen Brown Management Group: The Organic Deficit

How Missed Opportunities Subvert Revenue Growth Strategies

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If there were a “word of the quarter” for bank earnings reports, for first-quarter 2007 the word would have been “organic.” CEOs talked about getting more out of their current footprint, expanding their existing relationships, and optimizing their bank acquisitions before buying more.

No matter how they said it, CEO after CFO reaffirmed a commitment to meet Street expectations by increasing revenue from current resources. But the record is not promising. Twenty-five years into deregulation, industry-wide average cross-sales are about two products per customer. That’s after building all those data warehouses, installing all that technology, segmenting all those markets, inventing all those products, and tiering all those prices. How could it have been much worse before?

To be sure, some banks do much, much better at cross-selling. And it is not like customers go begging. If they do not get their mortgage loan where they have their checking, they still buy a house. They get a loan somewhere. But that is the point, isn’t it? Now two banks each have a marginal customer. Both banks invested in all the things it takes to boost their cross-sales, and neither got what they promised shareholders.

Last year, Cohen Brown dedicated significant resources to primary research on “missed opportunities.” Our premise: Account openings are the easiest occasions for cross-selling, so any shortcomings here are likely symptomatic of larger shortcomings during other sales opportunities.

We sent our researchers to 615 branches at 33 banks, and we made 374 calls to 35 call centers, all among the top 60 North American banks. (We purposely omitted our own clients.)

The researchers appeared to be affluent, professional, and in their peak earning years. Each gave generous clues on three areas of immediate need: personal banking, business banking, and mortgage. I mean clues on a silver platter like, "I'm arranging to meet our realtor to look at office space. We are moving here..." Verbal clues were reinforced by visual clues like brochures taken from kiosks, and so on.

The results were so poor that at first we almost mistrusted them:

- Among the branches, 88% of clues for sales opportunities were missed. The best bank missed 70%. The worst missed 100%. The hair salon next door would have missed no more.
- Among the call centers, the best missed 77%, the worst, 100%.
- The biggest miss was for mortgage. Only 48 of 615 mortgage opportunities were recognized, when mortgage should have been high on their radar.
- Only 54 of 615 opportunities for business banking – a top priority across the industry – were recognized.
- Only 112 of 615 personal banking opportunities were recognized.

We learned more when we analyzed the spectrum of specific behaviors. On the courtesy end of the spectrum, scores were high, with a steady slope down to the sales end:

- Of the branch personnel, 75% made the researcher feel welcome through words and actions. But only 24% made any effort to close a sale, and even fewer obtained contact information for follow-up.
- In the call center, 89% clearly introduced themselves by name. But only 16% made any attempt to obtain the business themselves or through referrals to specialists.

So, five products is a decent target for a new customer. Let's say each product trails a revenue stream of \$100 a year. (It varies widely, and products like mortgage loans bring in much more, but let's keep it simple and conservative.) Let's say this hypothetical bank averages two new customers per branch each day in its 100 branches. Its cross-sell is average – two products per customer. If only two products are sold during account openings, instead of the target of five, \$300 is left on the table during each interaction.

Even when they recognized the need, recommendations often failed to follow. They suggested good places to shop, good schools, and good realtors. What most did not suggest were their own offerings. We call this "friendliness with no commercial purpose."

If friendliness was selling and manners were revenue, we would be celebrating these results. But instead we are talking about *lost* revenue, and the numbers are huge.

What should every brand new customer get? At least a checking account, a savings account, a credit card, a debit card, and an ATM card. Maybe even a safe deposit box and a money market investment account?

I know – the conventional wisdom says that people do not want to give you much of their business. Could that be self-fulfilling? Otherwise, what accounts for a few dedicated banks proving the contrary? Maybe not being asked for their business has a lot to do with customers not giving it. Anyway, nobody is vowing to be average: "Let's be okay at cross-selling."

That comes to \$12 million a year that the bank fails to capture during account openings when customers are especially receptive and most revealing about their needs. If you have 1,000 branches, that amounts to \$120 million a year quietly slipping away. And this is conservative:

- It does not include all those other customers already on your books – the ones who only average two accounts instead of five or more.
- It does not count the event-driven products that should come later: highly profitable mortgages and home equity loans, investments accounts, and insurance.

- It does not count the retention and loyalty benefits that you get from greater customer penetration.
- Most of all, it does not include the prospects (like our researchers) who do not become customers at all *because nobody asked them to.*

Take your own pencil to it with your own product revenue streams. Do not be surprised if you find that missed opportunities add up to your entire organic revenue growth bogey.

In future columns, I will explore the reasons behind these missed revenue opportunities and how some banks are changing the way they capitalize on their opportunities in order to realize their organic growth goals.

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