

Making For Stickier Small Business Customers

by [Steve Brown](#)

You may not know it but there are more than 300 unique types of honey with varying colors and tastes available in the U.S., according to The National Honey Board. Generally speaking, light-colored honeys have a milder taste, while darker honeys are stronger-tasting. The taste of honey depends on the flower source, as well as rainfall and temperature of that region. So, the next time you're drinking a spot of honey in your tea, you might want to ponder that. Other than flavoring your tea, sticky-sweet honey can be used to soothe sore throats and calm stubborn coughs, and because of its moisturizing qualities, it's used in some skin care products.

Stickiness is applicable to customers too. Community banks are always looking for ways to make customers stickier because there is considerable research showing how fickle they can be. Keeping customers is an ongoing concern in the banking industry, particularly when it comes to small business customers.

To explore this further, we examine a recent Aite Group white paper, *Banking on Small-Business Needs*, that analyzed survey data gathered to help identify bank portfolio gaps and opportunities. Despite the obvious benefits of catering to this large segment of customers, many banks are still coming up short when it comes to providing them the services they want.

For instance, the survey data showed many banks don't offer small business owners the ability to easily track income and manage outgoing cash. Nor do many banks give these customers the capability of estimating future funds to make better investment decisions, or offer a system to help collect receivables. Yet, these are all services small business customers want.

It is interesting to note that according to the survey, banks collectively are so lacking in these areas that approximately 33% of small businesses work with nonbank providers who do offer these services. This opens a huge door to unregulated competition and it trains customers to look elsewhere for solutions. To slow this migration, banks should consider speeding up delivery of the user-friendly solutions customers want, according to Aite.

The same survey also explored why 80% of small businesses don't use their bank's online banking and cash management site to manage their finances. The survey found those who did, often sought out alternatives because their bank's site did not integrate with their company's accounting software. Further, bank software often did not provide a complete picture of forecasted cash flows or a consolidated view of account information.

As the survey indicates, banks that downplay the importance small businesses place on these services are likely making a mistake. In fact, they are of such importance that a good number of businesses say they would entertain leaving their primary bank to get them. The survey found approximately 36% of small businesses said they would switch banks if offered a premium package of online services, including accounts payable and receivable tools, direct integration with accounting software and cash flow forecasting capabilities.

We've said this before, but it bears repeating. Customer activities and expectations are shifting due to technological advancements that make managing their business easier. To keep customers in the fold, community banks should offer the services that matter to them. If not, there's no shortage of providers popping up who are prepared to step in and fill the void.

While there is certainly a cost to beefing up your small business offerings, it can also help your business bloom. As we buzz away this morning we offer this final thought--may the sweet taste of honey flavor your customer acquisition and retention efforts.

ECONOMY & RATES

Yesterday

Treasury yields rose 4bps as Fed minutes indicated surprise at labor market improvement, suggesting to some that a rate hike may come sooner than expected.

Today

Yields are currently up 1bp ahead of [jobless claims](#) and [homes sales](#) data.

Rates As Of: 08/21/2014 07:52AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.02	0.00	0.00
6M	0.05	0.00	0.00
1Y	0.10	0.00	0.00
2Y	0.46	0.00	0.00
5Y	1.63	0.00	0.00
10Y	2.42	0.00	0.00
30Y	3.20	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	0.25	0.00	
Prime	Unemployment	Oil	
3.25	0.00	\$0	

[More Market Rates](#)

BANK NEWS

Competition

The Wall Street Journal reports Wells Fargo is seeking to significantly increase its asset management business over the next 10Ys and will more aggressively sell such services and acquire other companies. Its goal is to reach \$1T in assets under management.

Rate Hikes

A CNBC survey of Wall Street firms finds the first rate hike will occur in July 2015, rates will rise 300bps and the final rate hike will happen 30 months after the first one begins. As with most things projected, these prognosticators are likely to be wrong, but by how much is the question. At least you have some information for modeling purposes and stress testing.

Competition

Citigroup is reportedly preparing to sell its Japanese retail banking operations as it refocuses efforts on markets with more growth potential.

Store Closures

Community bankers with retail exposure in the lending book should note office supply store Staples expects to close 140 stores this year as it seeks to cut costs.

Jobs Picture

The latest reports show 7.5mm people have part time jobs but want to work full time. Bloomberg reports 28% of those working part time say weak business conditions or limited full time job opportunities are keeping them from finding full time work. The number is 63% above the 4.6mm level of Dec 2007 but is 19% below the peak of 9.2mm reached in Mar. 2010.

Moving

Banks capture many customers as a result of people moving to a new area, so data from the Census may be interesting. It found about 40% of people relocate less than 50 miles away, while 25% move 500 miles or more. Meanwhile, renters move about 5x more often than those who own homes.

Small Biz

A CNBC survey finds 70% of small business owners' wealth is tied up in their business.

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