

## Moving Beyond Small Business Lending

by [Steve Brown](#)

We recently heard about Exo Inc., an upstart company in Brooklyn, NY that's trying to popularize the use of insects as food for humans. Each of the company's protein bars contain about 40 crickets, which have been cleaned, dried and milled into fine flour. The bars, according to Exo, not only taste great but are good for you too. Humans have eaten insects since the beginning of the species and even today, about 80% of the human population consumes insects of some variety.

Even with that historical context, getting the average person psyched about eating crushed up crickets will clearly have its challenges. We do respect a business willing to try something different. It is also be a good lesson for banks that may be spending too much time focusing on lending to small businesses and not enough time promoting other services these customers need.

There's been a lot of chirping in recent years about whether or not small businesses really need banks anymore, particularly as a number of alternative lenders have cropped up. We're obviously biased, but we think community banks still have an important role to play. That said, we think banks need to do a better job moving beyond just lending opportunities.

A mid-year report on small businesses by the National Small Business Association (NSBA) highlights why such a shift is so important. For instance, when asked which types of financing they'd used in the past 12 months, 32% of small businesses polled cited earnings of the business, 30% named credit cards and 28% of respondents said they used no financing at all. Meanwhile, only 19% said they'd gotten a loan from a community bank or the same percentage that received funding over the past 12 months from a large bank.

The risk for community bankers is that if all you're trying to do is woo small businesses with loans, it might not be the best use of your time in a good number of cases. To win and retain business from small companies, banks must do more given such extreme competition both online and offline.

It's certainly helpful when customers know the lending spigot is open, but banks also have to be able to offer broader solutions, such as small business credit cards, business checking, cash management and payroll, for instance. It also makes sense to consider what extras you can offer to entice small businesses. These might include online or mobile services that help them save time and money on tax and accounting assistance for example. Strategic planning is another important extra that small business customers want and appreciate, so that might be yet another option to consider.

There may also be a business case to focus on the have-nots. According to the NSBA study, 72% of small businesses polled felt they were able to obtain adequate financing, up from 65% who felt this way a year earlier. While it's encouraging that such a high percentage of small businesses feel they're on solid ground, simple math shows that another 28% of small businesses are struggling. This might be an opportunity for banks so it may be worth exploring.

Perhaps one day everyone will be eating insects more regularly. Until then, we think the lesson is to shake things up a bit. Even in banking, you don't have to eat bugs to know that maintaining the status quo while the rest of the world changes is a surefire recipe for disaster.

# ECONOMY & RATES

## Yesterday

Treasury yields remained relatively unchanged as fears over the global economy were offset by better-than-expected jobless claims.

## Today

Yields are currently down less than 1bp ahead of upcoming Fed speeches.

Rates As Of: 10/10/2014 07:55AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.01	0.00	0.00
6M	0.04	0.00	0.00
1Y	0.08	0.00	0.00
2Y	0.44	0.00	0.00
5Y	1.56	0.00	0.00
10Y	2.30	0.00	0.00
30Y	3.04	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

## Not Good

A PWC study of thousands of technology projects at hundreds of major companies worldwide finds only 2.5% of companies successfully completed all of their projects.

## Business Concerns

A Bank Director survey of directors and senior bank executives of banks across the country finds the greatest business concerns this group has about their bank are: regulatory compliance (68%); growing loans (33%); managing risk (29%); cyber risk (27%); providing a competitive return to owners/investors (27%); weak economic growth in our market (25%); profitability (23%); efficiency (21%); growing deposits (11%); accessing capital (11%) and CEO succession (7%).

## New Customers

Community banks seeking to capture new customers should note a global banking survey of consumers by EY finds the primary reasons people said they opened an account (or signed up for a new service) in the past 12 months are: the experience with the financial service provider (41%), rates and fees (30%), more convenient to have everything in one place (29%), access to branches and banking services (28%), branch or office location (26%) and information provided by a friend or relative (13%).

## IT Focus

A study of 672 global business and technology leaders by the Harvard Business Review finds 57% view IT as an investment that drives innovation and growth, 40% see IT as necessary to transform operations and manage costs and 3% see IT as a drain on resources.

## Customer Referral

A Nielsen study finds 84% of global respondents trust word-of-mouth product or service recommendations from friends and family. This is the #1 ranked method among both digital and more traditional methods.

## **Higher Pay**

Benefits consulting firm Mercer indicates the median compensation for CFOs at S&P 500 companies climbed 7% last year and the average base salary was \$600,000.

## **Biz Regulation**

A Gallup poll finds 49% of people say there is too much regulation of businesses, 22% say there is not enough and 27% say it is at about the right level.

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