Focus on RELATIONSHIPS, Not TRANSACTIONS

Too much time is spent on products and delivery systems.

By Don Musso and Stephen Brown Klinger

Since Jan. 17, typing "Wells Fargo" into Google returns the following top three suggestions: Wells Fargo Scandal, Wells Fargo Login and Wells Fargo Advisors. Following the trail, the first thing displayed when clicking on the top suggestion is an advertisement titled "Wells Fargo Customers — Our commitment to you." Just under that in the top stories section is an article titled "Wells Fargo CFO: Accounts scandal hit our mortgage referral business."

We all know the story and are not envious of the position. Well before news broke last year of the Consumer Financial Protection Bureau fining Wells Fargo $185 million, we had been strategically discussing with banks that they must focus on relationships and not transactions. Toward the end of 2015 we felt the industry was spending too much time during strategic discussions talking about products and delivery systems: How should I price my CDs in a rising rate scenario? What tools should I add to my mobile app? Should I increase my non-interest income through higher fees or more volume? Or furtively, how many customers are utilizing all of our platforms? The answer to these questions is always, "It depends." It depends simply on two things: the customer type and your relationship with that customer. Markets, staffing, growth, rate setting, lending, branches, mobile and the like will all follow if executed properly.

To shed the traditional model, banks must embrace a different culture. This means they need to:
1. Adopt customer segmentation across all silos within the organization.
2. Identify and create affinity with profitable customer segments.
3. Reorganize into a customer-centric model based on identified segments.
4. Hire relationship managers (call them whatever you want).
5. Make decisions based on the whole relationship.
   Integrating these concepts into a bank’s culture requires a commitment from the board and CEO. They will need to accept change and be willing to change the business model accordingly. They will need to break down the traditional silos and integrate all departments into a customer-centric mode.

The following list can aid in this endeavor.

1. **Create relationship managers and have them report directly to the CEO.** They will act as a traffic cop, directing customers to in-house expertise that meets the customers’ needs. Their job is simple: Know the customer, the customer’s needs and business and personal situations, and then meet and exceed those needs. Banks will still have product managers (manufacturing) and lenders (distribution), but they must all coordinate through the relationship managers (sales).

2. **Do not wait for customers to knock on your door or call you.** Pro-actively identify opportunities and chase them with strong calling programs and spheres of influence.

3. **Integrate customers into your budgeting and planning process.** This means planning on getting customers and their relationships, as opposed to various nonrelated products. This also will foster the acceptance of relationship pricing relative to the lifetime value of the customer.

4. **Set staff goals and track market share based on customer segments.** Setting product goals incentivizing staff to push products which are a bad fit for your customers is a recipe for disaster. Wells Fargo eliminated product sales goals; all banks should. Each segment utilizes products and services differently, so growth and volume will come from the expansion in number of customers and capture of wallet share.

5. **Build product bundles and customize delivery channels specific to each segment’s product needs.** If your customer numbers are growing, but the balance sheet is not, there is a misalignment of product fit or augmentation of delivery channels that needs to be addressed.

6. **Generate growth by leveraging affinity.** Family, friends, neighbors and acquaintances are great sources of new business not just from staff members, but also board members, service providers and community leaders. Once a customer segment is chosen, the key is to find the spheres of influence within that community.

For the better part of the last decade, big banks have been focused on volume and streamlining costs. Wells Fargo opened a huge door of opportunity for community banks to attack the customers of all big banks, but very few are taking advantage. The door is closing as Wells Fargo and other big banks are coming around, refocusing on the customer. Their tale is not just a precautionary tale of management and mis-incentives, but of adaptation and opportunity.

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This article is the third of a four-part series on strategic planning adapted on FinPro’s 2016 State of the Industry speech titled “The Traditional Community Bank Model is Dead.” The next and last topic in the series is “Use Complementary Fintech Systems to Create Competitive Advantages,” which is scheduled to publish in May 2017.