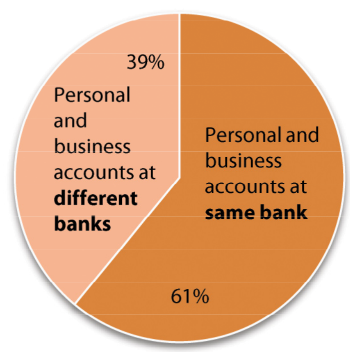
The "One-Stop Shop" for Business Owners: A Pipe Dream or Holy Grail for Banks?

Business owners are coveted throughout the financial services industry as high lifetime value customers. In insurance, they are a pivot point to dozens of commercial, personal lines, and life policies for themselves, their families, and their employees. In investments, they are deep pockets inclined to take risks. In banking, they are the lifeline of a resurgent business banking sector.

But how much value lies in cross-selling both business and personal products to business owners? We know that roughly 60% of business owners today have placed their business and personal accounts at the same institution (Figure 1). Yet there is no industry consensus on whether banks should actively encourage these customers to consolidate.

In this memo, we combine client insights with recent findings from our Los Angeles Banking Survey to assess the potential of the "one-stop shop" concept: **is it profitable, is it doable, and how do you know if it is a worthwhile initiative for your bank?**

Figure 1: **Concentration of business owner bank accounts**



Source: *Transom Consulting Los Angeles Banking Survey*

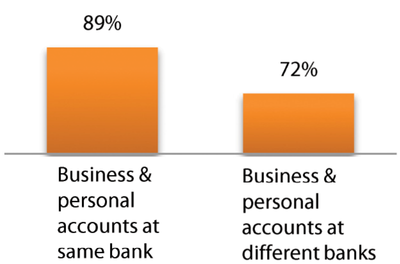
IS IT PROFITABLE?

For retail banks with the institutional capacity to offer business banking without sacrificing the quality of their consumer operations, cross-selling business products to existing retail customers seems an obvious choice. Particularly if business owners already comprise a substantial swath of existing retail customers, multi-line cross-sell promises substantial, low-cost deposits and higher margins from business products.

There is no industry consensus on whether banks should actively encourage these customers to consolidate.

Figure 2: **Satisfaction with current primary business bank**

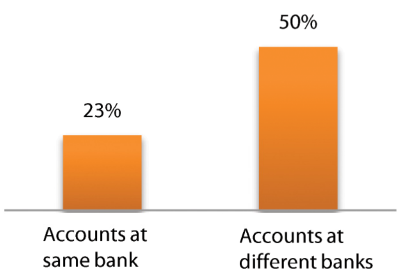
Percentage of respondents that were somewhat or very satisfied with their current primary bank



Source: *Transom Consulting Los Angeles Banking Survey*

Figure 3: **Likelihood of switching primary business bank**

Percentage of respondents that were somewhat or very likely to switch their primary business bank



Source: *Transom Consulting Los Angeles Banking Survey*

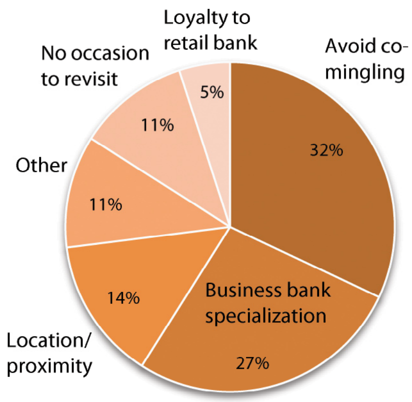
The equation is less clear for business banks. Many business bankers believe that the effort required to attract personal accounts is not justified by their lower balances and higher costs; that they jeopardize business banking profits if they do a poor job servicing personal accounts; and that focusing management attention on the retail opportunity may be a dangerous distraction from their core strategy.

There are two major counter-arguments. First, account consolidation may significantly deepen the customer relationship. Business owners who have co-located their business and personal accounts report higher satisfaction ratings (Figure 2) and substantially lower likelihood to churn from their current business banks (Figure 3). Though these statistics alone do not establish causality – customers who are more satisfied with their personal or business bank may simply be more likely to open additional accounts with the same institution – proprietary case study data suggests a retention benefit among cross-sold customers of up to 20% of business banking profits. A retention benefit of this magnitude may tip the scales for skeptical business banks.

Second, to the extent that retail banks become more active in championing the merits of a one-stop shop, business banks may simply have to follow suit. As retail banks hone their cross-sell efforts, starting with business owners within their personal banking books, business banks may find themselves playing defense.

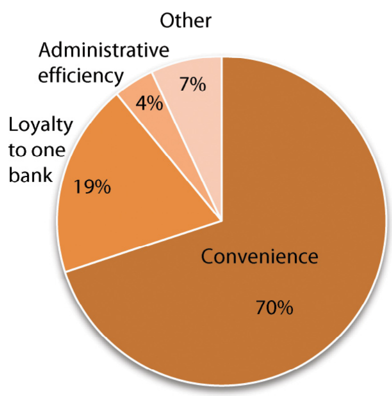
IS IT DOABLE?

Figure 4: Reasons for separate business & personal banks



Source: *Transom Consulting Los Angeles Banking Survey*

Figure 5: Reasons for co-locating business and personal accounts



Source: *Transom Consulting Los Angeles Banking Survey*

Assuming that banks have the institutional capability to deliver quality personal and business banking, the question becomes one of consumer perception and behavior. To believe that banks could successfully increase the co-location rate beyond current levels, we must believe that 1) the reasons customers have for separating their accounts are addressable and 2) there are strong arguments for co-location that can be captured in marketing campaigns.

We categorized the qualitative responses from our recent Los Angeles Banking Survey to test these premises (see Figures 4 and 5). Among the reasons customers gave for keeping separate business and personal banks, some may not be addressable. A sliver of business owners state that they need their business bank close to headquarters and their personal bank close to home. Another sliver – a subset of "Other" in the chart at right – feels locked in to their separate accounts by specialized loans or legacy arrangements that they would jeopardize if they consolidated.

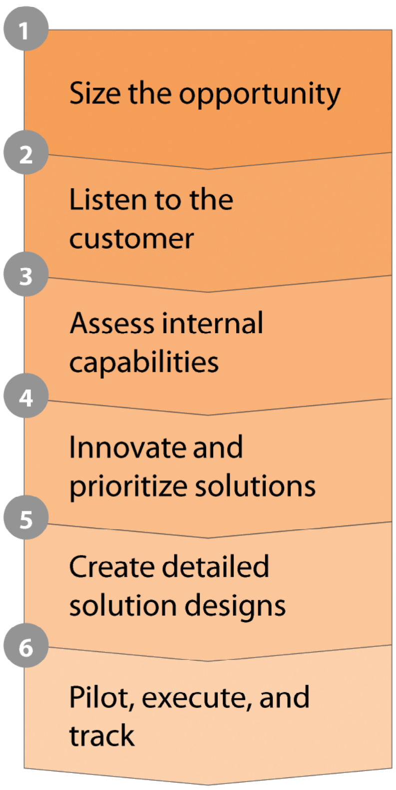
Yet the most commonly cited concerns seem more belief-driven than structural and could be addressed through consumer education, relationship manager training, and marketing. The concern about co-mingling was largely based on misperceptions around tax implications and the likelihood of bank errors (such as deposits or debits applied to the wrong account). Comments about business bank specialization were grounded in skepticism of retail bank offerings for businesses. This potential sticking point should be addressable through a well-designed initiative to close any gaps in the offering and to better market these capabilities. A one-stop shop initiative should also proactively create an occasion for customers who are open to the idea of co-location but who have not recently revisited their account structure.

The reasons customers provide for co-locating their accounts are highly clustered. Convenience is the dominant consideration – the ease of transferring money, the power of a single bank visit that addresses both business and personal needs, and the ability to work with just one relationship manager. Administrative efficiency, closely related to convenience, is about the ease of having only one source for statements and reporting. This clustering suggests that marketing messages around convenience and efficiency will hold intuitive appeal.

TRANSOM CONSULTING GROUP

IS IT RIGHT FOR YOU?

Figure 6: **Assessment and development of a cross-sell initiative**



We have suggested the theoretical attractiveness of a "one-stop shop" cross-sell initiative targeting business owners, but the right answer will vary by institution. Banks can calibrate their investment at several points in the six-step process of assessing and developing an initiative:

1. **Sizing the opportunity** starts with an analysis of the existing client base to identify business owners within the personal banking book, to assess the baseline cross-sell rate, and to quantify the financial impact of capturing a bank's fair share of one-stop shop customers. This stage should end with a preliminary "go/no-go" decision.

2. **Listening to the customer** entails in-depth customer research to understand business owner perceptions of the bank and customer needs and behaviors relevant to the co-location decision.

3. **Assessing internal capabilities** requires a gap analysis across product, service, distribution, and marketing to understand what changes would be required to effectively deliver the one-stop shop. Based on the extent of the gaps, revisit the "go/no-go" decision.

4. **Innovating and prioritizing solutions** begins with enterprise-wide ideation, grounded in customer research and competitive case studies. Prioritization filters the ideation results by estimated cost, relative impact, timing, and execution risk to create a portfolio of solutions. Cost insights can then be used to build a more robust financial model to inform a final "go/no-go" decision.

5. **Creating detailed solution designs** involves consensus-building on specific changes to processes and offerings, implementation timelines and game-plans, success metrics, and investment pacing.

6. **Piloting, execution, and tracking** embodies the notion of tying incremental investment to demonstrated success in pilots and the achievement of predetermined milestones.

As banks refocus on organic growth and step up their efforts to deliver upon the one-stop shop, success will come to those that calibrate their investment wisely and execute effectively across this six step process.