Survey

Why spend money on relationship management?

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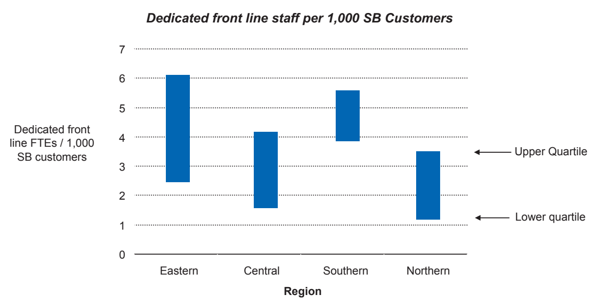
European banks employ over 40,000 staff as small business relationship managers (RMs). Taking the full costs of employing them, it costs around 2.2bn euros a year to provide this service to customers. Why is so much money being spent?

This article explores the reasons for this expenditure –both good and bad– and offers some guidelines for relationship manager usage. It is extracted from the fourth annual Finalta/Efma Small Business in Europe report published in January 2010, using research contributions from over 90 banks. Further comment comes from Finalta's ongoing benchmarking and best practice work with major banks across Europe. For clarity, here we define small businesses as those entities serviced within the retail bank (rather than in corporate banking) –typically below 3m euros turnover in Western Europe and 1.5m euros turnover in eastern Europe.

The issue. It is commonly accepted that relationships with high-value small-business customers should be managed by dedicated, specialist branch staff. Figure 1 shows the average to be around 3 dedicated staff per 1,000 customers though varying substantially both within and between regions.

Dedicated staff numbers

Across Europe, banks employ around three dedicated front line staff per 1,000 small business customers



Dedicated front line FTEs: Relationship managers, dedicated SB centre managers, hunters, assistants

Regions. North: UK, Ireland, Benelux, Scand, Germany, France. South: Portugal, Spain, Italy, Greece. Central: Poland, Czech, Hungary, Slovakia, Croatia, Slovenia. East: Bulgaria, Romania, Serbia, Ukraine.

Source: Finalta / Efma 2010 small business study

Across Europe, approximately 50% of small-business customers are relationship managed, typically in portfolios of 150 to 250 customers. These customers are managed using a service model which defines a certain number of proactive contacts and face-to-fact meetings per year.
To assess whether it makes sense for European banks to employ roughly 40,000 people to make regular contact with around eight million customers, we need to understand the role of the relationship manager.

The role of the relationship manager. There are three main purposes:
- to play a major role in the lending process –initial authorisation, ongoing monitoring and, normally, collections;
- to acquire and on-board new customers and to sell further products and services to existing customers; and
- to build and maintain relationships to increase loyalty, satisfaction and referrals.

On average, RMs spend approximately a third of their time on lending, a third on sales and acquisition and a third on customer servicing. Perhaps this means everything is fine. However, we need to understand the above in more detail.

Lending processes. Almost all small-business executives agree that the credit authorisation process for small businesses in their bank is poor. In many banks, particularly in CEE, small-business loans of less than 50,000 euros are decided using processes originally built for corporate lending decisions of over 1m euros. It takes many days to collect the data required to submit an application and then many more days to get a decision from credit control. On average, in CEE, the elapsed time is 8.4 days for unsecured and 15.4 days for secured lending decisions. It is not much better in many Western European banks.
Not only does this lead to a terrible customer experience in a key moment of truth, it is also very expensive. Best practice allows most unsecured credit decisions to be made within 24 hours and secured lending decisions within 72 hours.
For many banks, what the relationship manager is actually doing is attempting to make poorly designed systems work and to shelter the customer from too much pain and inconvenience. The relationship manager is an expensive "sticking plaster" for poor process design.

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Direct channels for small business banking, *January 2010. A joint Efma/Finalta production. The study is available on our website: www.efma.com.*

Customer acquisition and sales. Depending on the geography, new small-business customer acquisition rates can be upward by 20% per annum (though, sadly, attrition rates may be similar). Thus, a relationship manager can be kept very busy setting up and on-boarding new customers.
However, is this a necessary and appropriate task for a relatively expensive small-business RM? For almost all banks, the vast majority of new customers are start-ups who have very simple banking needs and, in all probability, will continue to have simple needs. There is no good reason why accounts could not be opened by regular branch staff.
Finalta is seeing an increasing movement to use non-dedicated staff for simple account opening and reactive sales of other products (deposit accounts, debit cards, etc.) to allow the RM to focus on high-value sales and interactions.
If a bank feels small-business account opening is too difficult for regular branch staff, then the process is probably too complex and needs to be re-designed. Equally, on-boarding processes can be structured so contact centre or non-specialist staff "filter" new customers to leave the specialist RM focused on those new customers of immediate or potential high value.

Building customer relationships. Most small-business customer surveys emphasise the importance of regular contact with a relationship manager along with the ability to customise products and services for them. But does this factor always justifies the use of relationship managers?
We believe some caution is needed. A customer may "value" contact with a relationship management and product customisation, but:

Conclusion

A lot of money is spent on relationship management.
Is this with good reason?

Good reasons	*Not so good reasons*
To demonstrably add value to the lending decision making and monitoring process	To compensate for slow, complex and poorly managed lending processes
To provide valuable relationship development with customers who both justify and need it	To compensate for other processes that don't deliver a good customer experience
To identify and acquire high value existing businesses from competitors	To open current accounts for start-ups, most of whom will only ever have basic requirements
To allow the bank to expand the relationship to the personal needs of the customer, the family and employees	To ensure that someone in the branch has some knowledge of and cares about small business customers

- Is the "value" of the RM his ability to find a way through the complex processes of the bank for the customer? If so, this is another example of RMs used as an expensive balm for poor processes.
- Does the value in relationship management require a local, branch-based RM? An increasing number of banks across Europe are finding that remote relationship management models provide at least as high customer satisfaction as the traditional model.
- Whilst the customer may wish for customisation, is this good for the bank? In searching for growth, many banks have customised offers and ended up with terribly complex systems, product sets and records – and therefore costs. Customisation does not fit well with efficient, high volume processes.

Generally, a customer wants the basic products and services to work easily and quickly. Only in key moments, such as lending requests, is the human interaction really vital.

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Conclusions. We are not arguing that local small-business RMs should not be used. There are good reasons for keeping them:

- If they truly add value to the lending and monitoring process. However, in many situations, they are actually compensating for lending processes that are not fit for purpose.
- To build relationships with customers who both justify and value this. This is different from compensating for a poor service experience.
- To acquire and to on-board high-value "switchers", but not to open accounts for low-value start-ups when this could be done by regular branch staff.
- To extend the relationship from the business to the personal needs of the customer. Unfortunately, few banks have successfully developed models to achieve this.

In the current economic environment, Finalta sees many banks reassessing their usage of relationship managers and asking:

- What is the purpose of local relationship management?
- Which customers should be managed in this model?
- What is the real value that is being added?
- What are the right measures and targets?

Perhaps a third of a typical small-business RM's time can be saved by better processes. Perhaps a third of locally relationship managed customers do not require, nor justify, this model. Saving or redeploying this time and cost can support the business case for process improvement. ■