Acquiring New Lead Relationships In Middle Market Banking

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Will require long-term, differentiated focus

Opportunity exists, as only 21% of mid-sized firms are completely loyal to their lead banking provider

The latest information from TNSâ€™ Commercial Banking Momentum Monitor shows only one in five mid-sized business are truly loyal to their current lead banking provider.
This represents a decline in loyalty from historic norms and suggests the majority of lead relationships may be in play. Slightly less than 10% of these firms are either proactively seeking a new lead relationship or frequently re-evaluate the lead provider that they use.

While this seems to be a small percentage of the market, it represents several thousand businesses in the U.S.

However, absent a long-term, differentiated effort providers will not make strong sides in acquiring relationships in this disrupted environment of weakening relationships.

It is typically a convergence of factors over a long-term cycle that will drive re-evaluation, consideration, and ultimately, switching. For 70% of the market, multiple failures by the current lead provider on credit, pricing, operational reliability, or service would push the client to consider alternative providers.

When an opportunity arises, the banks most likely to be considered are those that have already established a base level of familiarity and rapport with the prospect. This familiarity is often driven by the decision-maker's knowledge of banks operating in the area, a prior business or personal relationship, or word of mouth from associates or personal connections.

Once taken for granted, financial stability, ethical operations, and demonstrating a willingness to extend credit are now required basics for firms seeking new relationships in today's economy. Failure to meet these tests will immediately eliminate banks from consideration.

The factors that are currently most likely to influence the final selection of a new banking partner are credit terms, pricing, the product fit, the quality of the web-based solutions, and servicing.

â€œBanks seeking to drive growth through acquisition need to understand the dynamics of the switching process in the current environmentâ€•, said Glenn Staada, Vice President of TNS.

â€œThis includes the triggers that lead to consideration, the evaluation process, and the potential barriers to switch. The banks that will be best positioned to attract new relationships will be those that are able to respond to unmet and emerging needs with a differentiated solution. Bankers must continuously invest in building relationships with the businesses in the community, even among those extremely satisfied with their current relationships. It is these relationships that will eventually drive consideration once an opportunity presents itself."

Commitment to Current Lead Provider
One in five business banking and middle market organizations say they do not foresee ever changing their lead bank. The balance of organizations in these segments, however, would be open to at least considering what another bank has to offer.

However, only three percent of these are actively looking for a new lead provider and only an additional four percent say they frequently reevaluate the bank that they use as their organizationâ€™s lead provider.

Barriers to Switch
No perceived need, a long-term bond with the current provider, and the hassle of switching are the top reasons that executives say they arenâ€™t likely to consider switching providers in the future. Â

Among those less likely to switch, 67% say their lead provider currently meets all of their needs.Â For 53%, this includes the fulfilment of their credit needs. Additionally, one in ten fears the cost of switching to be too great. Â

This is especially true of the higher revenue firms with more entangled relationships and electronic solutions. â€œBanks can aid acquisition success by developing strategies to help clients more easily transition away from an existing provider, especially around EFTs.â€•, Staada suggests.

Nearly one in five feels that their needs are so customized that another bank could not meet them and one in ten acknowledges that there are things theyâ€™d like their current lead to do better, but they have not found banks with better offers.

While these may seem like small percentages, a window of opportunity exists as they equate to several thousand mid-sized businesses in the U.S.

Pathways to Switch
Seven in ten mid-sized businesses say if they were to consider a change, they are most likely to be pushed by the failings of their current provider. Only three in ten say they are likely to consider a new provider due to factors independent of the current lead provider.

Approximately ninety percent rate pricing as a critical factor in the evaluation of a new provider.Â Nearly as important are factors relating to financial stability, trust, ethical operations, high-quality technological solutions, service, and credit.

Four in ten would use their knowledge of the banks operating in their area to select the banks theyâ€™d evaluate as a potential new provider,Â One third say they must have a prior relationship with that bank, and nearly three in ten rely on word of mouth from business colleagues, family, or friends.

In the initial round of evaluation, potential suitors are most often eliminated from consideration due to questions around financial instability, ethical operations, or perceived unwillingness to extend credit.

Staada adds, â€œIn todayâ€™s economy, these are the new minimum requirements for entry in the business and middle marke segments.Â Bankers should have a strategy to pass the stability, ethics, and credit benchmarks prior to engaging with a new client.Â Failure to anticipate these questions will greatly diminish the opportunity to compete beyond these basics to communicate more fully the on the merit of its offer.â€•

Once the eliminators have been satisfied, prospects are currently most likely to make the final selection of a new provider on the basis of pricing, credit, trust, breadth of offerings, and service reputation.â€•

About the Study
The findings cited are based on telephone interviews conducted via the Bank Advisory Board component of the Commercial Banking Momentum Monitor (CBMM). This program is an ongoing, dynamic research study of mid-sized companies (US based Middle Market companies with revenues $3MM-$2B) across a variety of sectors.

TNS is undertaking this program on behalf of major US financial institutions. The program explores a wide range of topics of concern to company financial decision-makers.

The Bank Advisory Board is a select online community of company financial decision makers managed and operated by TNS as part of the CBMM program.Â Membership is by invitation only.Â The surveys used for this release were fielded between June 1 and June 21, 2010. 194 interviews were completed.

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