

Community Investments Vol. 11, Issue 1 Maximizing Your Microbusiness Opportunity

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Each year, Financial Institutions Consulting (FIC) and American Banker survey small businesses on their perceptions and use of financial service institutions. The 1998 survey focused on microbusinesses, defined for this study as businesses with revenues below \$1 million. While surveys of this type yield static data, they often uncover emerging trends. The following is a brief excerpt of the study's findings, which focused on how financial institutions can achieve greater success when working with microbusinesses.

Government and internal bank data show that businesses below \$1 million in revenues comprise approximately 90% of all small businesses. According to Oxford Information Technology, approximately 20 million microbusinesses currently operate in the United States. FIC estimates that typical bank-related revenue from an individual microbusiness ranges from \$1,000 to \$5,000 per annum. While revenues from individual companies seem small, FIC estimates that this segment represents a \$25-\$36 billion¹ opportunity for banks and other financial services providers. For banks to generate acceptable returns, however, they have little option but to develop "cookie cutter" products that focus on the micro-segment of the small business market.

Streamlining processes, standardizing products and services, and creating effective marketing strategies are the keys to success in dealing with this

business segment. However, there are a number of other factors that contribute to increased market share and profitability. The following are a few of the identified factors:

1. Banks must capture greater "share-of-wallet" from current customers. They can do this by developing a streamlined, one-stop-shop approach to services and products. Cross-selling both commercial and consumer products will build this segment's profitability, and will benefit customers through the value of relationship pricing.
2. Banks have clearly lost the leasing business to nonbank financial service providers. Other product lines may be threatened. Nonbanks have successfully partnered with computer, telecommunications and office equipment manufacturers to provide vendor financing, a trend that has already reduced profits for traditional lenders. Survey results indicate that of the microbusinesses who plan to use financing in the next year, 45% will use nonbank credit versus 27% in 1997. Countermeasures are definitely called for. One option might be to develop a direct-mail leasing product and work with vendors to capture more of the end-user's loan dollars.
3. Although currently insignificant, PC banking is growing in importance. Microbusiness owners currently rely on branch banking, but most expect to increase their use of PC banking in the next few years. More effective marketing of PC banking's capabilities and its benefits will help expand usage, and could also provide an inexpensive channel for cross-selling bank products and services.
4. Banks must do a better job of educating their customers. In addition to educating customers about the benefits of PC banking, banks should ensure that their customers are aware of other bank products they might find useful. For example, when small businesses were asked if

they would buy insurance from a bank, 74% said they would not. The principal reason? "Banks don't sell insurance." While banks often offer the "nontraditional" products that all businesses require, they have done a poor job of getting the message out. Ultimately, many banks may need to repackage their small business product offerings and refocus sales and marketing strategies to increase wallet-share and deepen market penetration. Only after banks fully analyze the microbusiness segment and the impact its characteristics have on profitability, can management develop an effective strategy. Each player--whether bank or nonbank, large or small institution--must recognize its deficiencies and acknowledge its strengths in order to take advantage of the significant opportunity this attractive segment offers.

¹ This estimate is per annum and does not include the use of personal credit cards to finance business needs.

Financial Institutions Consulting, Inc. is a New York-based management consulting firm that focuses on strategic issues for banks and nonbanks. For more information on the microbusiness study or other FIC services, please call (212) 252-6700 or visit its web site at www.ficinc.com.