

A Charge to Credit: Rethink the Rules for Success in a Sales Culture

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This article seeks to explain how—when defined and applied correctly—sales and credit quality go hand-in-hand. In addition to providing the rationale for better alignment of credit and sales, this article outlines 10 specific ways in which credit management can contribute to sales effectiveness while maintaining sound credit decisions.

Not so long ago, many commercial banks essentially stopped new business development to focus on workouts related to real estate and regional economic downturns. Today, the surviving commercial banks are stronger than ever financially, yet they face an intensifying pressure for revenue growth and an increasingly competitive marketplace.

The once distinct lines between commercial banks, investment banks, finance companies, and insurance companies are rapidly fading. Positioning themselves as one-stop shops, both investment banks and commercial

banks offer bank loans, public and private debt, and equity alternatives to smaller and smaller companies. As a result of the competitive landscape, entrepreneurs are becoming increasingly sophisticated and demanding in their expectations of bankers.

In an effort to retain relationships and grow revenues, commercial banks of all sizes—from the multinationals to the local community banks—are transforming themselves into customer-focused sales cultures. At the same time, credit quality remains critical. Deep down, many bank executives fear an overemphasis on sales. To keep the balance,

most commercial banks maintain distinct lines between sales and credit approval. Clearly the objectivity of the credit approval process must be preserved. However, the belief in the inherent conflict between sales and credit is misguided.

What Is a Sales Culture?

Too often bankers mistakenly equate a sales culture with a focus on winning at all costs. While commercial banks have often been under pressure to generate assets and revenues, few would be characterized as having sales cultures. Some are in the process of getting there. Contrary to an orga-

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nization simply focused on generating revenues, a sales culture clearly understands the business it wants to win and the business it doesn't want to win. It segments its markets and targets the business for which it can differentiate itself most successfully to meet its revenue and profitability goals. A sales culture understands and meets the needs of the customer.

To be implemented successfully, the sales culture and customer focus must permeate all parts of the bank, including the credit department. An effective sales culture not only increases revenues for the bank but also promotes behavior that leads to sound credit decisions.

What Customers Value

Brown Performance Group, Inc. (BPG) has conducted hundreds of interviews with middle market business owners and large corporate CEOs and CFOs to determine what they value from their financial providers. In comparison with investment banks and nonbanks, commercial banks are valued most by customers for the following qualities:

- Willingness to contribute their own capital.
- Responsiveness to their needs.
- Concern for the relationship.
- Ability to provide a wide array of products and services.

On the other hand, some of customers' biggest frustrations with commercial banks include the following:

- Lack of a sense of urgency in the credit approval process.
- Slow or delayed credit turn-downs.

- Repeated requests for more and more information.
- Reneging on "agreed upon" terms.
- Not taking the time to understand transactions from a business standpoint.
- Quick retreat when trends turn downward.

The Role of Credit Underwriting in a Sales Culture

David Coulter, Chairman and CEO of BankAmerica Corporation, in his keynote address at RMA's 1997 Annual Conference, said, "It does no good to book the revenue today if it's going to turn into a loss tomorrow, and it does no good to have the world's safest portfolio if it's the world's smallest portfolio."

To support the revenue goals of the bank, both relationship managers and credit managers need to work together. There must be as much emphasis on not losing good deals as on not booking bad deals.

Ten Steps to a Customer-Focused Credit Approval Process

As an integral part of the sales culture, credit managers must demonstrate a customer focus in ways that will improve customer perceptions of value and bank differentiation:

1. Communicate and clarify underwriting criteria and return expectations. Customers want to know in advance what the hurdles are going to be. Relationships are built on trust and mutual benefit. To be effective, relationship managers need to be able to deliver the bank to the customer. To do so, they

must understand what the bank is and isn't willing to underwrite.

Too often, relationship managers report that the credit underwriting criteria and requirements appear to be vague and somewhat inconsistent. Credit managers choose to cast a broad and general net that tests each individual deal on a case-by-case basis in the approval process.

Banks that focus on developing a clear sense of their credit underwriting criteria and continually communicate with their sales force tend to waste less time on unacceptable credits and have more focused, effective relationship managers. The dilemma, however, is that risk analysis and credit underwriting are complex, involving interplay among multiple factors. The criteria for credit approvals are not black and white, and no two deals are exactly alike.

An effective way to communicate underwriting guidelines is to review and analyze both approved and declined transactions with the sales force, focusing on the deciding factors in both. A systematic review process demystifies the decision-making process and improves prequalification of credit opportunities.

2. Set standards for credit approval turnaround. Customers expect timely turnaround of their credit requests. If the deal is declined, they need to find another source of financing. Depending on the complexity of the deal, appropriate turnaround from the customer's perspective may range from a week to several weeks, but it is not months. Credit managers should set the standards based on

customer expectations and reasonable internal processes and deliver as promised. Standards can be reinforced and monitored by tracking performance.

3. Prequalify credit opportunities with management. In a sales culture, time is money to both the prospect and the bank. Therefore, it makes sense to prequalify credit decisions. The lender should avoid the critical mistake of leading the prospect down the road, only to turn down the credit or change the parameters significantly. Relationship managers need to focus their efforts where they will be most productive. A quick "no" helps them, too.

One way to keep the customer apprised of the progress of a deal and to avoid a delayed turndown is to implement a process whereby complex credits go through a series of management reviews, from preliminary to final. The purpose of the interim reviews is to solicit early management guidance in identifying the key issues to be resolved. This avoids new requests for information relatively late in the process and, again, increases the likelihood of final approval in a lengthy and complex approval process. In a customer-focused culture, it should be unacceptable to have a credit turned down in the final stages of an approval process, unless the prospect is aware of the issues and the issues cannot be reconciled.

4. Focus on strategic questions and issues. The success of both sales and underwriting depend on the same thing: the quality of customer information. Like the sales force, credit management needs

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to be asking different, more strategic questions throughout the credit approval process. This is important to:

- Focus on the issues relevant to business owners, CEOs, and CFOs.
- Better evaluate underwriting risks.

To gain access to the level of information that builds competitive advantage, relationship managers must position themselves as "trusted advisors" to financial decision-makers. This is particularly critical in positioning the bank for investment banking and capital markets business. By positioning themselves as trusted advisors, relationship managers gain access to confidential information and insights that business owners and CEOs share only with those they trust and value the most. This information includes:

- The owners' and management's goals, motivations, and hidden agendas.
- Management's sophistication, experience, and competence.
- Management's and the owner's biggest worries and concerns.

- The financial and operating strategies and risks of the business.
- Strengths and weaknesses relative to the competition.
- Competitors' proposals and capabilities.

Access to confidential information (personal motivations, frustrations, goals, and biases) not only provides competitive advantage in tailoring solutions to meet objectives but provides important insights into management's likely response in reaction to unanticipated operational, economic, or competitive developments. It is the confidential and key strategic information that credit management should be seeking to understand through enhanced coordination with relationship managers.

5. Meet with customers.

Customers who value the relationship want to get to know the credit decision-makers in the bank. Face-to-face contact gives customers the ability to tell their story directly and to assess management's enthusiasm and support for their business. When handled correctly, this does not diminish the role of the relationship manager and enhances the overall partnership with the customer.

6. Explain the reason for credit disapprovals.

A company that the bank chooses not to finance today may be one that it would love to finance in the future. Recognize that a credit turndown is a potential damage control situation for the relationship manager. It is also an opportunity for credit management to clarify credit approval criteria and avoid misinterpretations by the

internal grapevine. Whenever a credit request is declined, the relationship manager should be given a clear reason for the denial so that he or she can communicate it accurately to the customer.

When the bank declines a credit request, bankers must meet the following customer expectations in order to maintain the relationship:

- Tell me early, so I have time to go elsewhere.
- Tell me why, so I have a chance to fix it, if possible.
- Advise me on who else might be able to help me.

7. Foster a continuous learning environment. A sales culture must provide a continuous learning environment. An effective way to cultivate learning is by debriefing deals won and deals lost as well as transactions approved and transactions declined. The debrief should be done not only after closing but periodically throughout the credit term, whenever there is a substantive change or restructuring. Celebrate those who are willing to share their mistakes as well as their successes for the sake of the lessons learned.

8. Know the competition and the market. Credit managers as well as bank relationship managers must be market savvy and responsive when opportunities arise. Should the bank choose a strategy of premium pricing, it must deliver premium value.

Like all other product specialists, credit decision-makers must stay abreast of the market in terms of availability, pricing, and structure. Too often, bank rela-

tionship managers express frustration that credit management is out of touch with market realities. Evidence of this is found in inconsistent application of risk/return parameters in the credit approval process.

Credit management must also be knowledgeable of the financing alternatives available to companies through the capital markets. This is an important consideration in evaluating capital structure adequacy and risk as well as in strategizing with the relationship manager on the best solution to propose to the customer.

9. Build expertise and industry knowledge. When compared with their investment banking counterparts, commercial banks tend to be at a significant disadvantage in terms of the availability, sophistication, and timeliness of industry information.

Industry information provides a competitive advantage in addressing opportunities and contributes to sound credit decision-making. Capital markets generalists routinely do peer comparisons to demonstrate value and stimulate conversations with business owners and CEOs. Credit managers need to be doing these same types of peer comparisons to enhance the quality of the credit analyses.

10. Continuously monitor customer expectations and perceptions of value. As in every other part of a sales organization, credit managers should solicit customer feedback on their performance. Internal feedback is also helpful in assessing the extent to which teamwork is functioning properly

to facilitate effective delivery in the marketplace. Some suggested criteria for evaluating performance might include:

- Consistency in credit underwriting criteria.
- Turnaround time.
- Responsiveness.
- Understanding of the business and industry.
- Fit between the solution and the customer's needs.

Conclusion

In a sales culture, all areas of the bank, including credit management, must be focused on meeting and exceeding customer expectations. However, that does not mean compromising the bank's credit underwriting standards. In fact, when defined and implemented correctly, a sales culture will actually enhance credit quality. This is accomplished through effective coordination and integration between the relationship management and credit management functions of the bank.

Selling more successfully requires having better information on the customer. Better information on the customer puts the banker in the position to better understand their needs, their challenges, and their motivations. With this understanding, the banker is in a good position to provide ideas and solutions that help customers accomplish their objectives. More complete information, particularly the information available to "trusted advisors," puts the credit underwriters in a stronger position to evaluate management and the risks involved in a transaction. □