



Delivering the Total Package

By Cheryl Munk
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About two years ago Northfield Bank started offering a credit card to business clients—not for the money the bank thought it could make, but for the money it was afraid it would lose.

“It rounds out our product line nicely and tells customers that if they do come with us, we have all the products and services to meet their needs,” said Damien Kane, vice president of marketing at the Staten Island, N.Y., bank, which is a \$1.3 billion-asset institution.

Indeed, it’s a chord that rings familiar with many community banks today—the need to offer competitive business credit card offerings or risk losing customers. Business customers probably aren’t going to come to Northfield because it has a credit card, but they could decide to bank elsewhere if it doesn’t, Kane said. “They’re definitely not walking in the door because they heard about this great credit card, but once they are here, it’s a great product to offer.”

Calling All Cards

Years ago, many banks owned and operated their own credit card programs, but more and more are turning to third-party providers to underwrite the loans, vet applicants and provide back office and administrative functions, said James Hudson, senior vice president of card services at TIB-The Independent Bankers Bank in Dallas. Turning to full-service providers such as TIB or InfiCorp of Atlanta, Ga., which Northfield uses, allows the bank to promote its brand on a card, yet eliminates the credit risk and can prove more efficient in terms of time and money.

Town and Country Bank in Stephenville, Texas, operated its own program for around 20 years, but sold it to TIB in late 2007, according to Jim Chambers, the \$143 million-asset bank’s president and chief executive, who said he wanted to keep the card relationship, but not the administrative duties. Trying to compete with the large credit card companies was hard, and it took too much money, time and resources, he said.

The key to success, Chambers said, starts with offering the right products. “You have to have the products and services to be competitive with the Citigroups and Bank of Americas. You [have] to be competitive, or you are wasting your breath.”

Next, you need to go out and tell people about your program. According to Chambers, “It isn’t going to do any good to just send them a brochure in the mail.” Instead, use excerpts from the brochure when you are making the calls to drum up new business. Chambers also cautions banks not to merely go out and build programs and think they are done. You have to continually tell your clients about new incentives you offer—because you can be sure your competitors are. Banks also need to train employees on how to promote the cards. Town and Country, for example, offers cash rewards for cross-selling products such as cards.

“Your first customers are your employees. If they are sold on it, they’ll sell it to the customers,” said Jonathan Silver, chief executive of Affinity Solutions in New York, which develops and manages rewards programs for banks. Drumming up excitement among employees and good marketing are key aspects to a successful program, he said.

Also make sure that you continually remind customers about the rewards they have and how they can redeem them, said Kelly Hlavinka, managing partner at COLLOQUY, a loyalty marketing firm in Milford, Ohio. “Customers get stickier when they experience the value that you’re trying to give them. Make sure the rewards aren’t a forgotten benefit,” she said.

Managing the Marketing

To be sure, a successful business credit card program requires marketing dollars. But banks also have to be careful not to overspend. Credit cards typically aren’t big money makers for community banks. Those that work for third-party providers, for example, typically receive a finder’s fee for every approved application and a percentage of sales volume and/or interest income. That doesn’t amount to huge returns and “if you’re spending a lot in advertising, you can really cost the bank a lot of money,” said David Wagstaff, “You have to know who you are going to target and who has a high probability of accepting your offer.”

According to Wagstaff, banks need to think in terms of limited bandwidth: “If you have an extra five minutes to talk to a client, is this going to be the best product to pitch? Are they more likely to accept a \$50,000 credit line or a \$50,000 credit card? Which one is more likely to be profitable to the bank in the long term?”

That’s why many banks view credit cards as a defensive product, one they have to have, but don’t go all out to promote. For example, business development officers at Litchfield Bancorp, in Litchfield, Conn., never start a conversation with a prospective client by touting the bank’s card offering, but instead mention it as one of many business products the bank offers.

It’s important that “we can offer the same products and services as the large national banks do, and with the possibility for a more hands-on approach,” said Paul McLaughlin, vice president and senior retail banking officer at Litchfield Bancorp, which is a \$200 million- asset institution. “It’s such a competitive industry that the smaller banks have to make these things available, but at the same time, it’s not a huge part of our business strategy.”

In fact, many community banks that offer credit cards say they still are only used by a small portion of their business clients. At Northfield, for example, Kane estimates that about 25 percent of the bank’s business clients use the card, a percentage the bank hopes will grow. Town and Country Bank, meanwhile, has about 400 to 500 business cardholders, which represents about 15 to 20 percent of total business customers. And at Litchfield Bancorp, McLaughlin estimates that about 15 percent of business clients use the card. Indeed, the business card program, which the bank offers through TIB, is not a huge money maker. “The income to the bank is secondary to being able to offer the product,” McLaughlin said.

To be sure, banks stand to make less money on business cards than they do on the consumer side. “It’s a numbers issue,” said Eldon Passey, vice president, who heads commercial card business for InfiCorp in Atlanta. You make less on a business portfolio than you do a consumer portfolio because banks tend to have fewer business clients, he said.

Nonetheless, the real benefit is to be able to offer a full suite of products for their customers— a loan to start the business, a working capital line of credit, and short-term financing in the form of a credit card. “It’s having a complete suite of lending products to be able to offer them in addition to deposit products,” Passey said.