

# Bloomberg

## Wells Fargo, BofA Push Cross-Sales as Loans, Investments Lag

*By David Henry and Dakin Campbell*

Cross-selling is so central to Wells Fargo that managers mentioned it 108 times at last month's two-day investor conference, said Barclays analyst Jason Goldberg..

Bank of America Corp. and Wells Fargo are pushing their customers to buy more brokerage, savings and banking services from them as the weak economy and new regulations make it harder to earn money from loans and investment banking.

Known as cross-selling, the concept has been fruitlessly pursued for decades by bankers eager to expand their business without having to find new customers. Now, banks are counting on cross-selling to replace some profit lost after the financial crisis, according to Accenture Plc, which estimates returns on equity could drop 21 percentage points from pre-crisis levels to 5 percent.

Profit is under pressure after bank assets shrank by a record 5.3 percent last year and consumer credit dropped 6.6 percent in 16 months, the most since World War II. Now Congress is preparing new regulations on fees, credit cards, securities and capital that may cut income at the 26 largest banks by \$21 billion, according to Barclay's Capital.

"The reason cross-selling has developed such a sense of urgency is that they are just getting hammered on all of their traditional sources of income," said Tony Plath, finance professor at the University of North Carolina at Charlotte. Cross-selling is so central to Wells Fargo that managers mentioned it 108 times at last month's two-day investor conference, said Barclays analyst Jason Goldberg.

### **Takeovers**

The strategy could work this time because takeovers have added millions of customers to cross-sell, U.S. lenders say. Bank of America, the biggest by assets, is trying to persuade its 12 million customers to move funds from rival brokers to Merrill Lynch, acquired at the start of last year. The bank also wants Merrill clients to transfer some of the \$500 billion they have at other banks, according to a May 10 presentation.

Wells Fargo is using slogans like "Eight is Great" as it exhorts employees to cross-sell at 6,590 branches, the most in the U.S. It's boosting staff 20 percent at some of the 3,254 Wachovia Corp. outlets, acquired in 2008, where customers average 4.85 products per household, compared with 6.02 at Wells Fargo.

Consumer banking contributed almost two-thirds of revenue last year at Bank of America, based in Charlotte, North Carolina, and at percent at San Francisco-based Wells Fargo.

### **New DNA**

In this environment, Bank of America must undergo a “DNA change,” CEO Brian T. Moynihan has said. More cross-selling is part of the transformation, which won’t be quick or easy, Moynihan said in a June 3 interview.

“It is a multiyear effort,” Moynihan said. “You go client-by-client.”

Wells Fargo CEO John Stumpf said March 1 he’ll emphasize cross-sales. “If we stay squarely focused on our customers, cross-selling them, helping them, we’ll win,” he told investors.

At best, cross-sales may restore three to five percentage points to the industry’s return on equity, according to Accenture. The tactic has been around “forever” with few except Wells Fargo showing success, said analyst Nancy Bush at NAB Research LLC in Annandale, New Jersey.

Among firms that championed the idea, American Express Co., added brokerage Shearson Loeb Rhoades and investment bank Lehman Brothers in the 1980s, only to break up the combination in the 1990s. Citigroup Inc., recipient of the biggest U.S. bank bailout, is dismantling the “financial supermarket” assembled in the 1990s by Sanford Weill, who tried to sell savings accounts, insurance and investments.

### **Losing Proposition**

Bank of America’s previous campaigns included selling home- equity loans to existing customers, CEO Kenneth Lewis said in December 2007. Home-equity losses since then total \$12.9 billion.

There are pitfalls. Some banks offer enticements so generous that they attract unprofitable clients, said consultant Richard Weissman, president of DMA Corp. in Beaverton, Oregon.

“Just selling doesn’t make it profitable,” he said.

With memories of the credit crunch still fresh, some customers deliberately use more than one bank in case service or solvency becomes doubtful, said Jacob Jegher, senior banking analyst with Boston research firm Celent.

Wells Fargo is focused on 3 million customers who keep more than \$250,000 for investments at other companies, according to Senior Executive Vice President David Carroll. One million of its households hold banking and brokerage accounts; a 10 percent increase could add \$900 million to revenue, executives said during the investor conference.

### **More Opportunity**

The bank's wealth, brokerage and retirement unit aims to almost double its share of net income to 20 percent with help from cross-sales, Carroll said. Last year, that would have added at least \$1 billion to Wells Fargo's profit.

Bank of America's cross-sales opportunities have been bolstered by purchases of Merrill and home lender Countrywide Financial Corp.

"We don't think really anybody has had the type of capability that we're really talking about now," Joe Price, who runs consumer banking, said during the May presentation. The company is focusing on deeper relationships with customers, rather than how many products it sells, Price said in an interview.

### **Business Clients**

As for commercial customers, Bank of America asks loan officers to refer more of their almost 200,000 mid-sized clients to Merrill investment bankers. Wells Fargo wants to sell 8 products per business customer, up from 6.47 in December.

JPMorgan Chase & Co., the second-biggest U.S. bank, sold more than \$6.9 billion of new mortgages and 616,000 new credit-card accounts to customers of Washington Mutual, acquired in September 2008, the New York-based bank said in a February presentation. Spokesman Thomas Kelly declined to elaborate. New York-based Citigroup is refining cross-selling strategies and plans to build a team to offer more mortgages to depositors, said spokesman Stephen Cohen.

The field is crowded by banks, insurers and money managers such as Fidelity Investments and Charles Schwab Corp., said Kathleen Shanley, senior bond analyst at GimmeCredit in Chicago. While not faulting banks for trying, "the answer to earnings growth is for the economy to rebound," Shanley said.