

Wells Fargo, Bank of America push cross-sales to boost growth

As assets shrank by a record 5.3 percent last year, banks push other products on clients.

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Bloomberg News

Bank of America Corp. and Wells Fargo & Co. 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 have dropped 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 Barclays 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 UNC 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.

The strategy could work this time because takeovers have added millions of customers to cross-sell to, 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 Charlotte-based Bank of America, and at San Francisco-based Wells Fargo.

In this environment, Bank of America must undergo a "DNA change," chief executive Brian Moynihan has said. More cross-selling is part of the transformation, which won't be quick, 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.

Banks of all sizes feel compelled to try the strategy, said Stephen Steinour, CEO of Huntington Bancshares Inc. in Columbus, Ohio, because "there are not a lot of options." He's hiring securities brokers and pushing to increase revenue from trust and treasury management, he said in a May 14 interview.

At best, cross-sales may restore 3 to 5 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, N.J.

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., which received 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.

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, Ore.

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 3million customers who keep more than \$250,000 for investments at other companies, according to David Carroll, a former Wachovia executive who now runs Wells' wealth, brokerage and retirement services unit.

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.

Wells Fargo'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 its profit.

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

Bank of America asks loan officers to refer more of their 200,000 mid-sized commercial clients to Merrill investment bankers.