

## Media Release

## “Show Me the Money” – Customer Churn Reaches Fever Pitch for Trade

(28 May 2020 – Australia) Australian importers and exporters have returned to pre-Global Financial Crisis (GFC) levels of churn, new research from East & Partners shows.

Can it be maintained as COVID-19 enforced shutdowns restrict global trade volumes?

Direct interviews with 1,892 CFOs, corporate treasurers and business owners as part of the H1 2020 Trade Finance program reveals four out of ten enterprises are planning to switch their primary trade finance provider in the next six months (39 percent). This figure matches similar levels of customer churn last witnessed in 2008 noting working capital constraints and liquidity concerns resulted in switching intentions snapping back strongly, only now recovering as yet another crisis grips global markets.

Compounding the supply chain shock to Australian trading enterprises is the crunch in demand exhibited across key export markets. Manufacturing, retail, tourism and technology sectors have all had production curtailed to slow the spread of the coronavirus pandemic. As this impact reverberates up and down globalised supply chains, both bricks-and-mortar and online shelves are suddenly empty as logistics channels are impacted.

One fifth of all intermediate inputs stem from China (20 percent) and Australia is not alone in its heavy economic growth reliance. Chinese manufacturing is vital to global supply chains, particularly technology, machinery, automotive and communication equipment. In 2019, Australian exports to China expanded 26 percent to over A\$150 billion, representing 38 percent of total export trade. While not as dramatic as the falls in early Q1 2020, March saw China's imports and exports slide precipitously, as the coronavirus pandemic negatively impacted suppliers across the globe.

One in two institutional enterprises nominate China as a key import / export geography (50 percent), noting that this proportion has been falling steadily by three percent per annum since reaching a record high of 58 percent in H2 2016. The shift away from China towards India and the US in particular has been even more dramatic in the corporate and SME segments, sliding by more than 11 percent year-on-year to only 35 percent and 28 percent, respectively.

Where will corporates now turn to plug COVID-19 related gaps in their stalled supply chains?

A likely outcome from the crisis will be supply chains recalibrating to more simplified structures that are shorter, less vulnerable and more focused on risk management. As borders close, trade barriers lift and protectionism reemerges, progress towards free trade and globalisation will inevitably slow to be replaced by a distinctive regional flavour for international trade as 'localization' takes place. This trend will potentially set the scene for a resurgence in local manufacturing production.

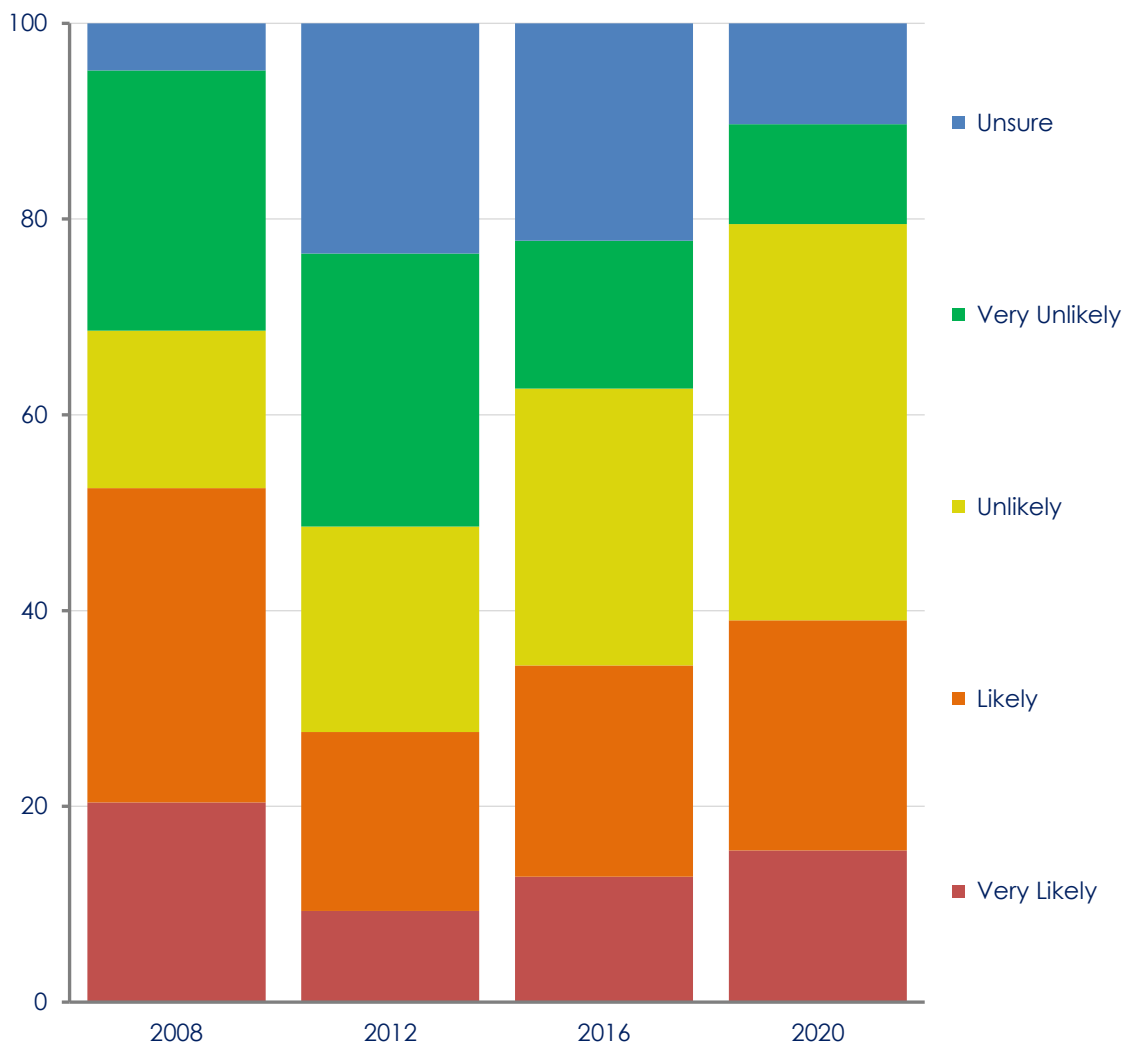
"Consumer sentiment will ultimately encourage businesses to actively seek a higher proportion of inputs through domestic supply chains. The disruption in global supply chains has been a wake-up call for many businesses. I know a number of businesses are actively looking at boosting local procurement because they know many Australian consumers are planning to closely examine their own purchasing decisions in the future" stated Australian Federal Industry Minister Karen Andrews.

"We're seeing SMEs who traditionally bank in holistic way and avoid using multiple providers for their trade finance needs starting to spread their trade 'wallet' more broadly" said East & Partners Head of Markets Analysis, Martin Smith.

"Incumbent trade finance majors are facing headwinds on multiple fronts with growing competition among the Big Four, non-Big Four, international banks and non-bank providers at the very moment customer's plan to switch to a new provider and overall volumes are suppressed. The ongoing coronavirus crisis will be a key test of rising customer switching intentions however, as exhibited by the decline in churn that took place in the wake of the GFC" Mr Smith added.

### Customer Switching Intentions Next Six Months – Corporate Segment

% of Total



Source: East & Partners Australian Trade Finance Program – H1 2020 (N = 1,892)

## About the research

East & Partners' Australian Trade Finance program tracks the relative competitive positioning performance of all domestic banks, international banks and non-bank providers. The analysis provides an accurate monitor of relationship share, wallet share, customer satisfaction, customer advocacy and mind share.

Based on direct interviews with a large representative sample of 1,892 importers and exporters, the demand side research closely monitors all trade finance providers as nominated by the randomised sample of CFOs and corporate treasurers included in each round's sample. The long running analysis, conducted continuously since 2004, also provides strategic recommendations based on key drivers of trade finance customer needs.

Released Biannually: March and September

Business Segments:

Institutional – A\$725 million plus

Corporate – A\$20-725 million

SME – A\$5-20 million

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## About East & Partners

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America