

Relationship Manager Performance in the SME Market

Huge rewards beckon for banks willing to invest in RMs to SMEs

No one would dispute that Australia's business banking markets are more competitive than they have ever been. And most of this competition is taking place in what has become increasingly coined the "sweet spot" – companies turning over A\$1 to 100 million. International players are getting serious about this segment, regional banks are expanding interstate looking for more of these customers, and the majors are restructuring to better service a market that offers more growth and margin than larger corporates.

But the models that most of these players are looking to deploy require one essential ingredient – having the right people. And the people who are absolutely vital to a bank's ability to succeed in this "sweet spot" are customer facing relationship managers (RMs).

Banks, particularly some of the newer market entrants, are actively head hunting RMs with strong sales performances and a strong client base. Others are staffing up to reduce client to RM ratios and/or pushing bankers back out into the field to create more face to face sales opportunities. East's research consistently shows that customers across all segments are looking for loyalty, knowledge of their business and industry, little of which can be delivered via a call centre.

The SME (A\$5 to 20 million turnover) segment represents a particularly rich seam of business for banks that are able to present attractive service propositions to these customers. They may be underbanked, reactive and use an average of just 7.3 products, but SMEs are increasingly aggressive and optimistic about growing their businesses. The key is to reach and engage with these customers, of which there are some 18,000 in Australia.

To gauge the service levels SMEs are currently receiving from RMs, East added a set of proprietary questions during the most recent six monthly interview sweep conducted for the April SME Banking Markets Report.

Figure 1
When was the last time you were visited by your Relationship Manager (RM)?

| N: 1407 | % of SMEs |
|----------------|-----------|
| Last week | 3.3 |
| Last month | 4.8 |
| Last quarter | 11.0 |
| Last half year | 12.2 |
| Last year | 15.5 |
| Never | 39.4 |
| Can't recall | 13.8 |

The data contained in Figure 1 is particularly revealing as more than half of all customers are saying they have never seen their RM, or at least can't recall when they may have. In effect, this means the majority of Australian SMEs are essentially untouched by banks in terms of any real service or contact, and this is a fairly benign interpretation of the data. A further 28 percent have not seen an RM in at least six months.

Figure 2
Are you happy with the service you have been receiving from your RM?

| N: 1407 | % of SMEs |
|-----------------------|-----------|
| Yes, definitely | 5.1 |
| Yes, generally | 13.6 |
| Occasionally / patchy | 22.4 |
| Seldomly | 29.0 |
| No, not at all | 29.9 |

The responses in Figure 2 can be viewed both as an indictment of current service provider performance and, of course, as a major opportunity for players targeting this segment.

Just over 18 percent of SMEs responded positively towards their RM but 58.9 percent are generally not happy with the service they have been receiving. This would indicate there is fertile ground for banks willing to put in the hard yards and invest in quality customer facing staff. Elsewhere in East's SME program, analytics reveal shortening account lifetimes and quickening churn rates, reinforcing the impact that poor RM delivery can have on market share and customer retention.

Figure 3

Has the service you receive from your RM improved over the past six months?

| N: 1407 | % of SMEs |
|------------------------------|-----------|
| Yes, definitely improved | 17.1 |
| Yes, although inconsistently | 22.0 |
| No real change | 45.8 |
| Deteriorated | 15.1 |

Whether RMs are reaching SMEs or not, those that are appear to be delivering inconsistent service. The good news is the 17.1 percent of SMEs that have noticed an improvement in RM performance. On the other hand, more than 60 percent say there has been no improvement or that service has in fact deteriorated, indicating service providers have yet to successfully reengineer their propositions to SMEs.

Figure 4

How long have you worked with your present RM?

| N: 1407 | % of SMEs |
|-------------------|-----------|
| Less than 1 year | 35.0 |
| 1 – 2 years | 43.1 |
| 2 – 5 years | 10.0 |
| 5 years or longer | 11.9 |

Figure 4 reveals the nascent aspect of larger banks' relationships with SMEs. Given SMEs have only reappeared on major banks' radars relatively recently, it is not surprising that slightly more than 78 percent of customers have had a relationship with their banker of less than two years. And in light of metrics in the previous tables it is possible these SMEs have only had one, or at best two visits from their RM. Other than the 11.9 percent who have had the same RM for more than five years, working relationships with RMs are not particularly deep.

Figure 5

Would you consider following your RM to another bank?

| N: 1407 | % of SMEs |
|--------------------|-----------|
| Yes, definitely | 18.8 |
| Yes, possibly | 22.1 |
| Unlikely | 10.4 |
| No, definitely not | 48.7 |

Despite the very ordinary assessment of RM interaction displayed so far in these metrics, a surprisingly high number of SMEs indicate they would consider following their RM to another bank. This is a particularly pertinent statistic given the hunt for RMs currently taking place in Australia. It is also proof of a "better the devil you know" attitude on the part of SMEs. More importantly, it illustrates the critical value of face to face contact with SMEs in generating a degree of loyalty towards their RM, notwithstanding their less than enamoured view of actual service quality being delivered.

To summarise: commercial and SME customers want direct relationship management from their banks, which are generally not yet delivering to requirements, providing significant opportunity for new players.