Market Share vs Wallet Share

The Case for Transaction Services in Customer Wallet Share

In customer measurement terms, "wallet share" or "share of wallet" is often viewed as the poor cousin to market share. A bank's share of wallet performance never makes headlines on the pages of the *Australian Financial Review* yet it is often the key to how effectively a bank is engaging with its customers. This issue is more vital than ever in a market where churn levels are accelerating and competitive pitching from a whole host of service providers has reached an all time high. The best way for a bank to both stave off the advances from rival banks and drive revenue by cross selling is to deepen relationships with its existing customers.

A key question facing service providers when they go to market is: "Are we all things to all people or do we focus on a specific range of products?" This is a balancing act that the Big Four commercial banks, in particular, continue to work at. In the same way that the more customers a service provider has, the harder it is to engage with them all, it is unlikely that a vast swathe of products will be delivered to the same high level. This is when the door is left ajar for some of the regional and international banks who may have a sharper product focus or may be initially less concerned with wallet share to walk in and start engaging. Or equally, product specialists in less "sticky" and highly competitive product areas such as Spot Foreign Exchange can capitalise on an incumbent bank's lack of focus.

Figure 1 shows the extent to which banks' average wallet share of customers' Spot FX business has diminished over the past 12 months across the corporate, commercial and SME market segments. By way of example, the two leading banks in terms of Spot FX to SMEs, National Australia Bank and Westpac, have 55.6 percent and 68.1 percent respectively of their customers' Spot FX wallet. Major banks have demonstrated that they can compete with FX specialists, such as Travelex, but only when they make a concerted effort to do so by reengineering their offering and devoting more resources to the space. Whether they have the time and focus to do this across the entire product spectrum, however, is another matter.

Figure 1

Spot FX

	Average % of Business Per Primary Relationship — Overall	
	Current	**12 Months Ago**
Corporate	43.3	50.9
Commercial	42.6	46.8
SME	45.1	51.2

Another area where share of wallet is rapidly diminishing is Australian Dollar Term Lending. Lending has become commoditised, often simply a case of "best deal of the day"; it's a product space that offers increasingly slim margin and does little nowadays to deepen an existing customer relationship. Figure 2 illustrates that the average share of a customer's wallet is falling across the three segments with commercials and SMEs, in particular, spreading their lending requirements across multiple providers.

A dynamic worth noting is the disaggregation of banking relationships that is taking place in all market segments. This is nothing new in the large corporate segment where historically CFOs and Treasurers have been proactive about managing their banking relationships. But this is now increasingly occurring in the SME and smaller commercial segments, which previously enjoyed more holistic banking relationships. This is largely a response to the competitive pitching that is now happening as well as a gradual uptake in the number of products engaged.

Figure 2

Australian Currency Term Loans

	Average % of Business Per Primary Relationship — Overall	
	Current	**12 Months Ago**
Corporate	86.1	88.5
Commercial	73.9	77.6
SME	51.1	55.6

Product and customer identification the revenue driver

So where should service providers be focussing their efforts in an environment where even smaller companies are starting to multi-bank? Over the past three years East & Partners has consistently stated that customers view their primary banking relationship as being with their transaction banker. Transaction banking is essential to a customer's day to day business and as such these products and services tend to be fairly sticky. Figure 3 shows service providers' average wallet share of a customer's Cash Management business. In contrast to Spot FX and A$ Term Lending, wallet share of SME and commercial companies' Cash Management business has increased over the past 12 months. Average share of wallet in the case of SMEs has grown to 94.7 percent from 93.1 a year ago, while commercial companies' wallet share in this product line is now 94.9 percent from 93.1 percent 12 months before. The exception is the corporate market segment where Cash Management wallet share, while still high, has decreased slightly – a further illustration of the disaggregation occurring in the segment and the challenge posed to service providers in pushing more product into customers that are overbanked.

Figure 3

Cash Management

	Average % of Business Per Primary Relationship — Overall	
	Current	**12 Months Ago**
Corporate	89.3	89.8
Commercial	94.9	93.1
SME	94.7	93.0

It may be a "no brainer" that it's easier and more cost effective for a bank to grow revenue through existing customers rather than acquiring new ones, but the critical thinking revolves around what products deliver best leverage and hence where to place resources and efforts in winning more of a customer's business.

Sources: East & Partners SME, Commercial Treasury and Account Penetration programs