Churn Trends in Business Banking

Identifying Shorter Sales Cycles Key to New Business

It is well documented that Australia's business banking markets are hypercompetitive and that competition is occurring across the entire range of market segments, from the Top 500 corporates and institutions down to Micro Businesses turning over less than $5 million a year. A major consequence of this dynamic is that the Top 500, Commercial companies ($20 – 340 million turnover), SMEs ($5 to 20 million) and Micro Businesses ($1 to 5 million) are being subjected to competitive pitching like never before and by an expanding number of service providers. Given this competitive environment, a bank planning where best to allocate customer development resources needs to examine which segment offers the best opportunities for sales.

A good place to start is to look at which market segments are displaying a propensity to churn, how much of a customer's business is churning and how quickly churn is occurring. This allows providers to identify the segments that offer the shortest and therefore quickest sales cycles. One of the questions asked by East & Partners across all market segments is: How likely is it that you will look to change primary banker over the next six months? Interviewees are also asked whether they switched to another provider, either in whole or in part, over the preceding six months.

Traditionally, roughly half the number of businesses which profess a desire to switch all or some of their banking relationships to other providers actually do so over the course of the six month period – an illustration both that real churn is happening, and that many businesses contemplate switching for a long time before taking the plunge. These conversion rates in themselves are accelerating, alongside customer propensity to change bank.

Figure 1

Churn Cycle Reanalysis: Primary Transaction Banker

	% of Customers Looking To Change	% of Customers Making a Change Within 6 Months	
		In Whole	In Part
Top 500 Corporates			
November 2003	14.6	4.4	7.1
May 2004	15.9	4.7	8.2
November 2004	18.1	4.6	8.5
May 2005	20.3	4.9	8.8
Commercials			
August 2003	16.5	2.1	7.7
February 2004	19.8	3.5	7.9
August 2004	22.4	5.1	8.0
February 2005	25.7	5.7	8.0
SMEs			
April 2004	21.6	6.9	9.1
October 2004	23.4	7.1	9.3
April 2005	23.4	7.2	9.3
Micro Businesses			
January 2005	31.2 *		

* only data point to date

Note: the numbers referring to actual customer moves refer to the preceding 6 monthly propensity / interest in making a move

Figure 1 illustrates the churn cycles of the four major market segments East measures. Interestingly, despite being heavily multi-banked, Australia's Top 500 corporate segment is increasingly looking around for better deals with the percentage of customers indicating they will switch providers increasing from 15.9 percent of customers in May 2004 to 20.3 percent in May this year – signifying 28 percent acceleration over the past year.

Customers receptive to compelling propositions

Given the pain involved in switching primary transaction banker for these sophisticated and therefore complex companies, a notable 4.9 percent said they had moved their transaction banking to another provider during the preceding six months when last interviewed. In other words, almost 10 percent of primary transaction banking relationships in the Top 500 churns each year. This has been a consistent picture for the past few years, despite the growing restlessness of these major customers. Added to this, the number of customers churning parts of their banking relationships is also increasing, albeit gradually, with almost nine percent switching part(s) of their business – quantitative confirmation that corporates are cherry picking best of breed products and are therefore open to compelling product/service propositions.

The Commercial segment offers a similar picture, notwithstanding a growing willingness on the part of these customers to shift whole of transaction banking relationships elsewhere. When last interviewed, 5.7 percent said they had moved to a new provider compared with 3.5 percent a year before – a massive 30 percent growth over a 12 month period. Like the corporates, a consistent eight percent are regularly moving parts of their banking relationships elsewhere and/or are engaging new products from non-incumbent providers.

Not surprisingly, the less sophisticated SME segment which engages far fewer banking products and services than their larger brethren, is currently churning quite slowly with just 9.3 percent of SMEs shifting part of their banking relationship elsewhere compared with 9.1 percent a year before. Micro Businesses are also on the move with almost a third saying they are actively considering shifting their banking relationships.

This and the other churn cycle analytics discussed here demonstrate that real windows of opportunity for service providers hunting new business do exist. The key is to engage with these increasingly restless customers and present strong service and relationship propositions in the most effective and efficient manner. Service providers with low, native customer churn in their installed customer base better placed to take advantage of these churn dynamics in generating new customer relationships than banks having to "look over their shoulder" at leakage. But no bank can afford to take their eye off the main game: deepening relationships and engagement points with existing customers, providing tomorrow's real new business.