



Understanding Value for Money

What do business banking customers really want?

In all of East & Partners' research programs, Value for Money is rated by business customers as one of the top five service factors in their dealings with banks. Smaller businesses typically rate Value for Money as either the first or second most important service issue. But what does value for money mean in the eyes of business customers? Is it merely a case of "who's the cheapest?" Or is it referring to the level of service that is wrapped into product delivery?

In East's latest SME Banking Markets Report, value for money is rated the second most important service factor out of the 15 that East monitors each time, behind Customer Support. While business customers rate it as important, there remains a great deal of dissatisfaction with the value for money that these customers feel they receive from their providers. Using the same 15 rating factors, value for money is rated a low eleventh place, indicating a disparity between expectations and delivery. So what can be done to close this apparent chasm?

The first step is to try and understand customers' understanding of what value for money actually means to them. Notwithstanding it will always mean different things to different people, we can at least establish some common ground among customers in various enterprise segments. In a bid to clarify the customer take on value for money, East placed some additional questions in the July 2007 round of our monthly Business Banking Sentiment Index. East asked Micro Businesses (companies turning over between A\$1 to 5 million per annum); SMEs (A\$5 to 20 million); and Lower Commercial companies (A\$20 to 100 million), about their perceptions of what constitutes value for money in a banking relationship.

In the SME segment, 60.7 percent of businesses placed a greater emphasis on a high level of service, with roughly a third of SMEs indicating that value for money meant generally lower fees and prices. Less than 10 percent of SMEs considered that value for money meant both better service and lower price. These findings were generally echoed in the smaller Micro Business segment where 53.8 percent of these businesses nominated better service as being the driver of value for money.

The mix of responses were different in the lower commercial segment where a smaller percentage (43.8 percent) considered that value for money

referred to service and 26.9 percent said value for money was a combination of both price and service. Generally, each market segment indicated that value for money meant better levels of service, however, each market segment placed varying degrees of emphasis on this need.

One thing is clear: most businesses, regardless of size, want a more personal relationship with their provider. In East's SME Banking Markets Report, more than 60 percent of businesses said their preferred means of interacting with their bank was via a Relationship Manager. However, more than 70 percent of the same SMEs said they do not currently have an RM. This is a key reason that many businesses have turned towards brokers who are able to help them source the best (typically lending or lease) product with minimal fuss. A substantial 38 percent of SMEs said they had sourced a business banking product through a broker over the past six months.

Ensuring the bottom line: will they pay?

Quality service provided by banks requires dedicated, service driven staff to cater for the individual needs of each business. It requires time and of course resources to understand the customer. The good news, at least, is that most business customers understand this. Further findings from East's Business Banking Sentiment Index reveal that just over half of all businesses are willing to pay for the guarantee of a more personal service such as a designated business banker. Almost half of all SMEs are willing to pay their providers more for such a service with less than 20 percent indicating they would be unwilling to pay more for their own RM. Interestingly, it is Micro Businesses which place the greatest value on this service, with 62.1 percent indicating they are willing to pay for the guarantee of a better quality service. Small Businesses have one main goal in mind: to sustain and grow their business. If they can take the hard slog out of business banking, they can focus on what they do best and what matters the most to them.

All in all, opportunities exist for banks that can distinguish between those commodity customers that chase the lowest price and higher value customers which identify service as a key driver of their banking relationships – and respond accordingly with the right mix of service and price in their offering.

Segment	N Count	% of Enterprises		
		Mainly Lower Price	Mainly Better Service	Both
Micro Business	182	33.0	53.8	13.2
SME	183	30.1	60.7	9.3
Lower Commercial	160	29.4	43.8	26.9
TOTAL	525	30.9	53.1	16.0