



Seizing the moment

A unique opportunity exists to deepen relationships with business customers

Last month's Research Note concluded that the Big 4 banks have a 'once in a career' opportunity to leverage recent bank consolidation and the flight to safety taking place by business customers. Namely, as Australian businesses increasingly look to their bankers for funding support, lending relationships have become much more 'sticky'.

The product cross sell opportunity that the current environment brings is apparent. However, there is also a unique opportunity for banks to deepen relationships with business customers by thinking beyond the current downturn.

East & Partners (East) has been closely observing the market dynamics associated with product cross sell and deepening of relationships during the past decade. During this time, we have derived clear inferences about the common pitfalls and the success factors. Below are some of the key issues to consider in exploring the current opportunity to leverage the 'stickier' relationships with business customers.

Know thy customer

Each business is different and wants their bank to respond to their unique industry and business environment. This should be the starting point in all cross sell initiatives: an effort to understand the customer.

The next step is to pool knowledge of the customers so that meaningful segments can be identified. Customer segmentation is vital since there are clear differences in businesses' behaviour by industry and size. For instance, East's research shows that SMEs engage an average of 4.7 banking products from their main lender, against 7.5 products engaged by Institutional / Top 500 businesses.

With the need for funding support growing by day, lending relationships currently offer the best cross sell platform. East's research shows a steep rise in the importance of Transaction Banking relationships during the past several years. This has now ground to a halt and an increasing proportion of businesses are starting to regard their lender as the primary banker.

Lenders therefore command increasing influence with customers. But with great power comes great responsibility; providers need to ensure that their influence with customers is leveraged in a sustainable manner.

Sustainable cross sell

There needs to be a clear incentive for the customer to purchase more products from their lender. This can take the form of efficiency based cross sell such as packaging solutions designed to optimise working capital management. In addition,

customers often need to be educated about their evolving product needs as their business develops or as market conditions change. For instance, market volatility presents an opportunity to reinforce the importance of risk management products to customers. Proactive product advice will ensure that customers see the bank as an advisor and will contribute to improving their satisfaction.

The Relationship Manager (RM) is the best channel through which to achieve the twin goals of raising product cross sell and lifting customer satisfaction. Across the business banking market, from a small manufacturer to the biggest retailer, businesses prefer to interact with their bank through their own dedicated banker. Australian banks have clearly recognised this fact and have tried to deliver more 'personal' business banking. East's research shows a marked rise in RM deployment during the past year, with nearly two thirds of A\$5 to A\$500 million annual turnover businesses now saying that they have a dedicated banker.

East's research provides evidence that the growing incidence of RMs is paying off in terms of customer satisfaction. However, the investment in RMs must also be monetised in terms of product cross sell. An RM that can build good rapport with a customer and make them more loyal to the bank is invaluable, but ultimately the RM needs to also constructively cross sell relevant products to the customer.

Beyond tomorrow

During downturns, customers will inevitably rush to the comfort of the big banks and be open to banking more holistically with these providers. How they are treated as 'captive' customers – both in terms of price and service – is critical to ensuring they remain loyal to the bank in the longer term. Only when the customer relationship outlasts the troughs in the credit cycle will there be the desired deepening of the relationship.

Average Number of Products Engaged from Primary Lender

