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The dam of dissatisfaction

The banks' success in the SME segment rests on increasing customer satisfaction

CBA's recent profit guidance provided a fairly clear indicator of what we can expect from the Big Four banks during 2010. Over the past eighteen months, the Australian banking landscape has dramatically reduced in terms of competition, allowing the Big Four to firmly re-establish their dominant status. Risk has been constantly and, arguably, too often conveniently, used as an argument for why the banks have needed to re-price their books in an attempt to protect their margins. So what does this all mean for Australian businesses in the Small to Medium Enterprise (SME) segment?

It certainly appears that SMEs have come into the spotlight more during the turbulent past two years. The populace at large have begun to realise just how important a healthy SME segment is to the general well-being of the Australian economy. Indeed, the growing Federal government rhetoric regarding SMEs is a clear sign that the government regards 'connecting' with the SME segment as a potential vote winner. However, when it comes to the performance and actions of the Big Four banks, it seems there are mixed messages.

On the upside, East & Partners' Business Banking Customer Satisfaction Monitor (BBCSM) clearly demonstrates a rise in the number of SMEs using a Relationship Manager (RM), as demonstrated in the Figure below. This is particularly pertinent as East's research shows that this is by far SMEs preferred method of interaction with banks. Indeed, not only are more SMEs using the RM channel but their satisfaction with this channel has steadily increased over the past twelve months, again illustrated in the Figure following.

However, when it comes to banking relationships, there are still some major areas of angst for the SME community. Notably, despite an improvement in satisfaction regarding access to and the performance of their RMs, SMEs' overall satisfaction with the banks has declined to alarming levels over the past twelve months. East's November 2009 BBCSM shows that – on a scale of 0 to 10 where 0 is very dissatisfied and 10 is very satisfied – SMEs give their banks an overall rating of just 4.44. Particularly worrying is that this rating has consistently declined over the past eighteen months and that two of the Big Four banks now achieve a rating of below 3.

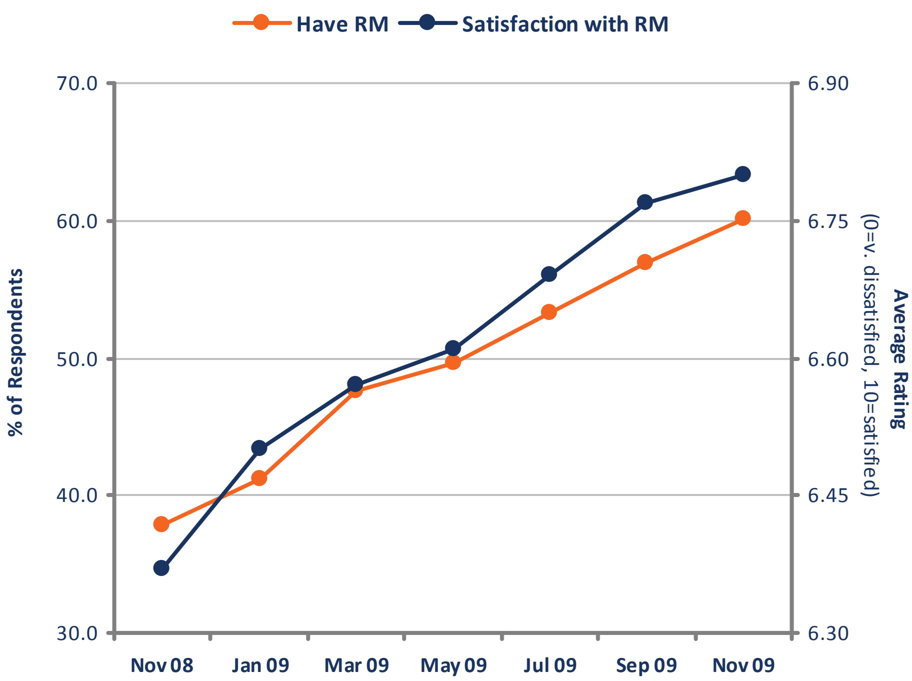
It is also an area of concern for SMEs that while more of them are interacting with an RM, over of a third report the average length of their RM tenure being less than six months – hardly a timeframe in which an RM can really understand their customer's business. Frustration levels have been further compounded by the fact that a significant number of SMEs have reported rate increases on their loans in the past twelve months, despite the much heralded rate cuts by the RBA. Add to this the fact that SMEs have been reshuffled in the banks' internal structures seemingly more frequently than the Liberal frontbench, it is not surprising to learn of this segment's growing dissatisfaction with the Big Four.

It should be noted, though, that the Big Four have weathered the past eighteen months remarkably well, coming out of the economic storm stronger than most of their global peers. However, over the past twelve months the Big Four's actions have clearly compounded the frustrations of SMEs, helping to build a dam of dissatisfaction amongst these businesses.

It is therefore imperative for the Big Four to remember that while the global financial crisis has presented them with an exceptional opportunity to grow market share and profit accordingly, appropriately relationship managing the SME segment will avoid the 'dissatisfaction dam' breaking and subsequent large scale customer attrition when the competitive landscape normalises.

Deployment and Satisfaction with RMs

(A$5-25m turnover businesses)



Source: East & Partners' Business Banking Customer Satisfaction Monitor