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Life Cycle Banking

Understanding small business means getting personal

The May 2007 PricewaterhouseCoopers Private Business Barometer, for which East & Partners provides the research and analysis, revealed that roughly half of all businesses in the A$10 to 100 million turnover segment are run by the person who either started, inherited or bought the business – rather than appointed CEOs on short tenures. Such a statistic illustrates the extent to which banks and other service providers are dealing with the business owner – someone who presumably has much invested financially and emotionally in the enterprise – as opposed to a faceless, impersonal "business".

Most such business owners, as is often pointed out by East, are entrepreneurial in nature and view themselves as "growth stories". This is even more the case in the smaller Micro Business and SME segments. But not all do. One Queensland based small business owner, who East came across in the course of our research, reached the point in the life cycle of her business where she either continued having her handbags made by a local team in Brisbane, or took her business to another level by manufacturing her goods in China. For personal, ethical and patriotic reasons, she decided to keep things as they were.

This business owner told us that intuitively she viewed her bank as a natural advisory partner with which to discuss the crossroads her business had reached – and potential need for additional funding, working capital and international payments services – but due to the lack of engagement with her bank and any demonstrable advisory expertise that she was aware of, she turned to her accountant instead. Small businesses bemoaning the lack of advisory services on the part of banks is a sentiment consistently heard from business customers in our research. These businesses do view their banker as the natural and even preferred source of business advice but few ever experience this style of engagement.

Given the demand coming from small business for banks to provide advisory services, and the need for banks to generate high growth and higher margins in the business banking arena, is it time for banks and other providers to revisit the oft-discussed but never fully realised notion of life cycle banking? Banks typically segment their customer base by footings, turnover and increasingly industry sector, is there an argument for considering a distinct segment based on customer life cycle?

For the term of its natural life

Most product sales occur in the early stages of a relationship with a new SME business customer and often stagnate from that point onwards. A life cycle banking approach would consist of offering customers a portfolio of tailored products targeting the early, middle and market exit strategy stages in the life of a business. Businesses continually ask providers to understand their business and industry they operate in, so banks could do worse than adopt a market position of "trusted advisor".

Within the cradle to grave life cycle of a business, nowhere is the potential value of change more apparent than in the area of succession planning and business transition. According to the Barometer, about a quarter of all business owners are looking to exit the business within the next two years. Banks that are able to position themselves to advise businesses on how to manage their transitions and structure the transactions stand to generate significant revenue. Business owners, themselves, also require advice on tax planning, wealth management and long term strategies for the ongoing success of their business. But the advisory space is extremely competitive: the big four professional services firms are hunting business in the SME and middle market segment; second tier accounting firms are well entrenched, and even commercial brokers are having the kinds of conversations with businesses that banks should be having.

There is a natural connection between private banking and business banking to business owners but there is often a disconnect between the respective services that banks offer. Whilst many small businesses prefer to keep the two services distinct from one another, they are happy to engage both from the same provider. Notwithstanding private banking is a market "hot spot" with Australia boasting some 150,000 high net worth individuals collectively worth A$4 billion, East's most recent SME Banking Markets Report found that just 53.6 percent of SMEs used their business bank for private banking services.

Banks positioning themselves as a trusted advisor are able to both service a business through its natural life cycle by providing the full relationship package, and also differentiate themselves in Australia's hyper competitive business banking markets.

Life Cycle Matrix

Phase	Products
Start Up	Basic transaction facilities and small debt lines
Development	Debt funding, specialist services such as Trade Finance
Mature	FX, capital markets, wealth management
Exit	Tax, packaging, exit advice