



# Is Customer Advocacy Dead?

## Managing the Long Term Relationship in Business Banking

In 2009, business banking has seen a period of competing interests. The importance of maintaining profits and managing funding costs has seemingly outweighed the need for customer service. Deterioration in customer advocacy amongst business banking customers, however, is a clear indication that banks are losing the potential benefits of long term relationships.

As banks concentrate on their business lending and risk management strategy, relationships have arguably become a low priority. The short-term focus is on effectively managing risks and it is difficult to argue against this in the current environment. But long term banking relationships are also vital to sustainable profit growth.

Recent East & Partners research has revealed that a major issue for businesses, resulting from this financial crisis, is securing debt at a reasonable price, without inhibiting requirements. Businesses have strongly indicated that they are unsatisfied about the fundamentals of pricing, covenants and security.

Given this, maintaining a satisfied, loyal and empathic customer base is becoming increasingly difficult. Consequently, to find a business that will be an advocate for their bank is an even greater rarity. Currently, a significant and increasing risk for the banks is the prevalence of negative advocacy; the likelihood that a business would actually dissuade a colleague from engaging with their bank.

Each month, East & Partners measures the likelihood that a business will refer their main bank to a colleague or business associate. For Micro Businesses, with annual turnover of \$1-5 million, there is simply no occurrence when they will refer their bank.

A score of 10.4 on a scale from a low of 10 to a high of 100, in May 2009, would suggest that advocacy with smaller businesses is non-existent.

Current conditions mean that businesses won't readily move their banking relationship due to the securing of finance being the number one priority. However, when conditions turn would you stay at a bank that hasn't looked after you?

The need for long term relationships as a sustainable profit base is reason enough to focus on customer relationships, while maintaining appropriate risk management standards.

A tried and tested way to ensure customer advocacy and long term relationships is relationship management. Some banks continue to develop successful relationship models and such banks will attest to the model's success in customer advocacy.

The key to a successful relationship model, however, moves beyond merely the physical presence of a relationship manager, but effective relationship management. There are key characteristics in a relationship manager that go a long way to creating a satisfied customer that is willing to recommend their bank.

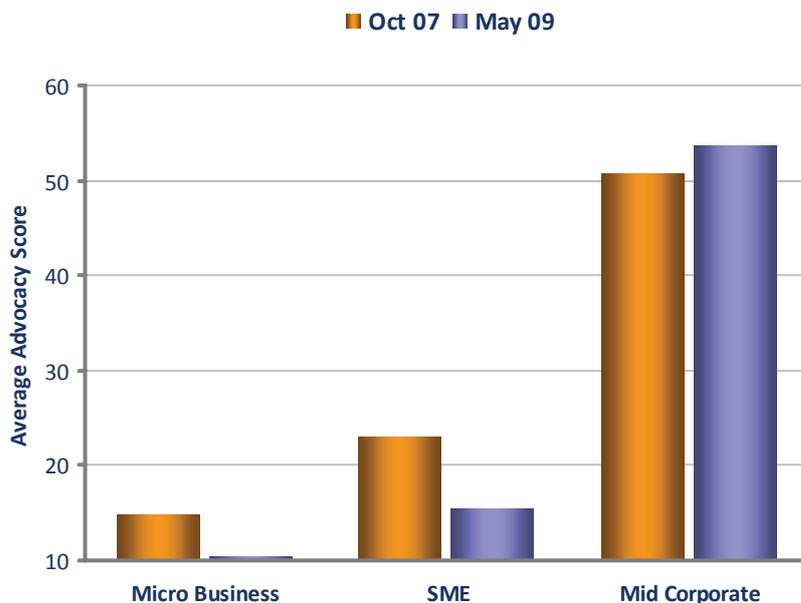
Enterprises, particularly from the large end of town, expect a relationship manager to know their business and respective industry, with the relationship manager willing to take ownership of the relationship.

Indeed, it appears that the requirements of the larger enterprises are, fundamentally, being met. Bigger businesses in the Mid Corporate segment (\$20-100 million), have a significantly higher advocacy score of 53.7, compared to the low of 10.4 for micro businesses.

There is a definite divide in the way that business relationships are managed amongst the different turnover segments. Figure A below shows that, since the market downturn at the end of 2007, small business advocacy has fallen away to nothing while mid corporate businesses are actually stronger advocates of their respective bank.

Figure A: Average Advocacy Score by Enterprise Segment

10 (would not recommend) to 100 (would recommend)



The perennial dilemma for the banks, though, is how to provide the same level of service to small businesses, compounded by the sheer number of businesses that exist in the small end of town.

Understanding the key factors in providing a quality level of service is nonetheless important, as smaller businesses know what they want and what they are missing out on.

The effects on relationships are quite clear. Where relationships are not managed, advocacy will fade away, while bank reputation will be adversely affected.

Finding the balance has never been more important given the backdrop of the current market. While risk management and pricing are obviously top of mind, reviving customer advocacy and maintaining reputation are also fundamental to long term, sustainable success.