

The state of play in Australia's SME Trade Finance market

(Australia – 25 September 2008) Despite having more embedded relationships with their trade financiers compared to larger companies, Australia's small to medium businesses are more likely to shop around for a new provider during the next year.

East & Partners' latest Trade Finance report features detailed coverage of the SME (A\$5-20m annual turnover) segment, alongside the standard analysis of the Institutional (top 500) and Corporate, or middle market, segments.

"There are a number of parallels that can be drawn between SMEs and trade customers in the middle market, but there are also some fundamental differences in the way SMEs interact with their financiers," said East & Partners' financial markets analyst Zoran Knezevic.

"The need for liquidity support figures prominently on the wish list of SME customers, with the quality of service delivery and trade advice also regarded as very important," he said.

This is virtually identical to the service expectations in the middle market.

"However, the nature of relationships between SMEs and their trade providers differs markedly compared to the relationships between larger companies and their financiers."

In the SME segment, virtually all of the trade finance business is serviced by the main financier, with the average primary provider wallet share coming in at 88.6 percent.

This is in stark contrast to the Institutional and Corporate markets where wallet shares are 63.7 and 51.8 percent respectively, and where two out of three customers have a secondary trade provider.

"Even though SMEs are more entrenched with their primary financiers compared to larger businesses, they show more willingness to switch to another provider," Mr Knezevic said.

About a quarter of SMEs say they are very likely to change their main provider during the coming year, compared to just 9.1 percent of top 500 and 18.8 percent of middle market companies.

"In the top 500 and the middle markets, customer churn means that the financier often loses only a part of their business with the customer. But in the SME market, customer churn generally results in the entire relationship being moved to another provider."

With this backdrop, competition in the SME trade finance market remains vibrant.

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NAB and ANZ have the largest market share as trade financiers to SMEs, but they face competition from the international banks, led by Citigroup and HSBC, as well as the smaller domestic providers such as BankWest, Arab Bank and St George.

“The SME segment is the most populous in terms of customer numbers so the stakes for trade financiers are quite high,” said Mr Knezevic.

“Understanding the expectations of these customers and the nature of their relationships with providers is an important first step in meeting the financing needs of smaller businesses trading internationally,” he concluded.

About East & Partners’ Australian Trade Finance Markets Program

Australian Trade Finance Markets is East's ongoing six-monthly research service focusing on the Top 500 institutions and a structured sample of the corporate businesses with annual turnover between A\$20 and 340 million. From August 2008, the program also includes full coverage of the SME (\$A5 to 20 million annual turnover) market segment.

Each analysis report covers a range of metrics including market share, share of wallet, product penetration, export/import regions, supplier share of mind and customer satisfaction with service performance.

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