

Innovation in Business Banking

What is required to break from the pack in 2007?

With another year upon us and the intense level of competition in the business banking markets showing no signs of abating, a natural question for banks and other providers to pose themselves is: What do we need to do to break out from the pack in 2007? Judging by the fairly ordinary performance of most banks in East & Partners' Business Banking Sentiment Index, where the market average Sentiment Score for the final Index of 2006 was just 42.4 out of 100; there is clearly an opportunity for someone to do so. And given business customers – particularly SMEs and middle market enterprises – are displaying conspicuous appetite for additional products and services from their providers, there is much business to be won for banks whose proposition truly connects with what these customers are demanding.

Banks often talk about differentiating themselves in the eyes of the customer but what exactly does this mean? And to what extent does differentiation mean innovation? A quick scan of media release archives on bank websites shows that what is presented as "innovation" is typically associated with new and enhanced products and services, such as SMS alerts, improved internet functionality, streamlined credit processes, and more secure electronic payments. Or, it might be a case of banks opening their branches on public holidays; offering foreign language services in areas with large migrant populations; or renovating branches to create a more customer friendly environment. What is clear is that most of this so-called innovation occurs on the consumer side of the fence.

So, what does innovation mean for business customers and how important is it that their providers demonstrate innovation as part of the overall service proposition? In each of the market segments East covers, we ask businesses to rate the importance of innovation to them, among a list of relationship attributes.

Innovation no game breaker

In the most recent SME Banking Report (A\$5 to 20 million turnover enterprises), Innovation was rated the 12th most important attribute out of a list of 14. In the latest Commercial Treasury Report (A\$20 to 340 million), Innovation was rated the 10th most important attribute out of a list of 13. By way of contrast, customers in both market segments were relatively satisfied with the level of innovation displayed by their banks. In fact, there is a direct correlation between the two sets of metrics: the less important the relationship attribute, the happier business customers tend to be – and vice versa.

The upshot is that innovation is not viewed as being particularly important to the customer, let alone a game breaker that would get a prospective customer over the line. What would do, on the other hand, according to these relationship banking importance measures, are banks providing Value for Money; Loyalty to the Customer Relationship; and Understanding SME Issues, in the case of SMEs. Commercial enterprises cite Value for Money; Loyalty to the Relationship; and Quality of Bank's People as being their top three most important service/relationship factors.

Other factors that consistently rate highly across all market segments are Understanding Customer's Business Needs and Knowledge of Customer's Industry Sector. This latter category has been addressed by providers restructuring their businesses to adopt a greater industry focus. Again, the issue is that if

banks now all offer expertise in Pharmacy, Aged Care, Agribusiness and Mining, for example, it becomes more challenging for a bank to maintain a cutting edge of differentiation between itself and competitors. How does one bank demonstrably display more industry expertise than another?

Consistency and commitment is innovation enough

It is clear that in the minds of business customers, innovation is associated with product rather than service. And as East's research shows, product has become increasingly commoditised to the point where customers take it as a "given" that products they engage from banks will perform sufficiently. While there may be innovative ways of delivering product in terms of clustering or packaging the offering to customers, it is typically the service component of product delivery where innovation can be demonstrated – not simply product in and of itself.

A less subtle way in which banks have attempted to differentiate themselves – but to call it innovation would do the term an injustice – has been in the area of pricing, particularly in lending and deposits. As noted previously, business customers do want value for money from their providers but this does not necessarily mean they are chasing the cheapest deal. Business customers are generally happy to pay for quality service.

So, if this all means that innovation as recognised and appreciated by business customers resides in service rather than product or price, how can providers best go about being innovative in a service/relationship focussed manner? The word innovation may convey the sense of being clever; of providing customers with something they are yet to realise they require; but many businesses would feel that improved interaction with their providers would be innovation enough.

This might mean not having to submit the same details five times, or having to continually re-educate new relationship managers, or being pitched an irrelevant product or service. In short, anything that lowers the barriers to meaningful bank-client engagement would be deemed to be innovative as it gets to the heart of what customers are looking for from their banks. Those providers that can demonstrate year on year consistency and commitment to their customers will be best placed to break out from the pack. For those who do not, poor execution will undermine any attempt at innovation.

Innovation Ranking by Segment

	Ranking out of Number of Relationship Attributes	
	Importance	Satisfaction
Commercial	1.52 (12 th of 13)	1.63 (4 th of 13)
SME	2.11 (12 th of 14)	1.93 (3 rd of 14)
Micro Business	1.90 (=12 th of 14)	2.47 (4 th of 14)