Market Share in Business Banking

Discerning the solid performer from the lame duck

The two themes that have been identified by banks as providing the clearest indicators of their success and progress in the business banking markets are customer satisfaction and market share. In the case of customer satisfaction, it appears that having happier customers has almost become the end game for certain banks whereas research by East & Partners clearly shows that improved customer satisfaction does not automatically translate into deeper relationships with customers nor necessarily convert them into advocates for the bank. Market share, on the other hand, would appear to provide more concrete evidence of which direction a bank's profit is likely to head in. The issue here is that market share means different things to different people and depends on how and what is being measured. As a result, market share is open to a number of selective interpretations which might suit the purposes of individual institutions at given times but does not provide the market with any clear and consistent comparison of one bank's performance versus another's. It's the old apples versus pears syndrome.

Market share performance can be likened to a duck on water. Everything may appear calm on the surface, the duck may seemingly be heading in the right direction, but nobody can tell what's going on underneath. One webbed foot might be doing all the work. This is a little akin to the high energy, high cost "in through the front door, out through the back door" customer acquisition strategies some players seem to be deploying – as discussed in the July 2006 Research Note entitled Death of the Relationship Manager. A healthy top line market share figure might keep shareholders, analysts and the market happy. But the lower cost to income ratio banks would achieve by retaining customers through strategies designed to deepen relationships and make customers more profitable would keep them happier still. After all, how sustainable over the long term is a one legged duck?

Depth of customer relationships ignored

A market share measure that took into account the depth and value of a bank's customer base would more accurately represent business models centred on low churn and deeper relationships with customers. Furthermore, these kinds of customers are more likely to stay with the bank and become more profitable as time goes by. Notwithstanding this, the market seems to be fixated on how big a slice of the pie individual providers have rather than how much that slice might be worth to them. Similarly, measuring banks' share of their customers' wallet – the amount of their business customers give individual providers – also acts as a truer indicator of the strength of relationships with customers.

Notwithstanding the fact that deepening relationships with existing customers is more cost effective than acquiring new ones, as a TV programmer might say: "Wallet share just doesn't rate." The use being made of the official data as reported by the Australian Prudential Regulatory Authority (APRA) is a case in point. The monthly supply side derived report on the gross share of authorised deposit-taking institutions' (ADIs) assets and liabilities has been subjected to a fair amount of public scrutiny with some banks appearing to have faith in it as a measure of market share and others less so.

A couple of years ago, East conducted a pilot attempting to marry a demand side view of business lending with the regulator's supply side numbers and found it extremely difficult to reconcile the two due to certain anomalies in the way business lending is officially reported by banks.

Non believers obliged to conform

Whether you're a "believer" in the official data or not, in a market where non-lending products are increasingly viewed by customers as the most important products in their banking relationships, and lending margins continue to spiral downwards, the APRA data is still a very blunt and shallow way of measuring who is top of the pops in Australia's business lending markets, let alone using it as a proxy for overall business banking performance. However, equity market and media interest in the banks' performances each month has caused what are in effect incidental outcomes of the regulator's monitoring of ADIs to become a much used (and abused) market share measure.

Not all providers play in the same product markets nor do they aspire to. Some providers, international banks for example, play to their strengths in selected markets whereas the large domestic commercial banks play in most. Different business models, therefore, demand different measurement requirements. Is there a common way of measuring individual bank market share performance that can be applied industry-wide? Do banks' respective internal systems enable them to provide "like with like" data? Getting this right is critical for internal planning and performance monitoring for providers – especially if measures are capable of segmentation by key product and customer types.

The demand side research carried out by East enables market share to be presented in terms of primary and secondary share of customer relationships; share of products; share of customers' product wallets – the sum of which comprises a composite view of market share that is meaningful and therefore actionable. Mapping this against reconciled supply-side based analytics could provide a real solution to measuring commercial bank performance.

Dynamics of Measuring Market Share

Bank X: Relationship Share up but Wallet Share down