



Emerging From the Credit Crunch

The Opportunity for Banks in Australian Business Credit

The fall-out from the US-led credit crunch is beginning to settle. Banks are battered and bruised and some businesses have lost their lifelines. With the real story slowly emerging, now is an opportune time for Australia to look closely at what the future holds in the long term. For banks, this represents an opportunity to see past market jitters and make quality business decisions regarding the business credit market. For businesses, it represents a sure footing in their funding requirements.

East & Partners has been keeping a close eye on small businesses and the effects of the credit crunch in Australia. Small Business' views on growth are positive, despite what worldwide conditions have to say. Revenue targets are generally being met or exceeded, and sales and profit growth continue to expand, particularly in the boom states of Western Australia and Queensland.

The Business Issue

While East & Partners' research into businesses with turnover from \$1 to 100 million per annum has revealed the potential long term business impact, the real impact of the global credit crisis on businesses in Australia is not yet set in stone. There are clear opportunities for banks to step in and provide what businesses are looking for.

For the small to mid market businesses in this turnover segment, 54 percent expect less access to credit directly due to the credit crunch. The problem becomes worse for Micro Businesses in the \$1 to 5 million turnover range. A staggering 84.3 percent expect less access to credit. Once current credit

facilities have run their course, the impact on Micro Businesses could truly be significant.

Further, 42 percent of Mid Corporate businesses (\$25 to 100 million) simply don't know what will happen to their access to credit. The combination of a positive outlook on growth and nervousness on funding makes for a greater opportunity for banks. Businesses want this uncertainty resolved so that their positive outlook on growth will come to fruition.

The Opportunity

Banks need to understand the business, its issues and its industry. These are clear business requirements to come out of East & Partners' core research recently. Never has this been more important. A proactive approach by banks to understand and cater for business funding requirements will ensure the best outcome for both parties.

What will happen without action? The implications of the credit shortfall will impact both businesses and banks alike. A change in access to credit will decrease borrowings in two thirds of businesses, which will effect both business growth and bank profitability. Nearly 35 percent of businesses will have to alter their short term strategy, while some businesses' projects could be stopped completely. A third of Mid Corporate businesses will stop those projects to which funding is a fundamental driver.

For banks, the opportunity is now to take a proactive stance and actively seek out businesses to understand their needs and credit requirements. Relationship management and strong business, product and industry specialists will ensure businesses are well catered for and assured of their access to credit. Many businesses will otherwise turn to multi banking or decrease their borrowings and subsequent growth potential.

Distilling the real impact from market uncertainty from this credit crisis crystallizes an opportunity for banks in Australia. This is an opportunity identified by focussing on one major source: understanding the customer, their issues and needs. If banks can take this and make quality business decisions on future lending, they can help fulfil businesses' strategies for growth and expansion while strengthening their own long term lending portfolio.

Expected Impact on Access to Credit due to Credit Crunch

