A GUIDE TO BUYING BEHAVIOUR

DRAWING ON HIS COMPANY'S RESEARCH, **JUSTYN TRENNER** OF CLIENTKNOWLEDGE CHALLENGES SOME BASIC ASSUMPTIONS ABOUT HOW TREASURERS ALLOCATE THEIR BUSINESS AND WHAT THEY NEED FROM THEIR RELATIONSHIP BANKS.

The results of our recent research gave us clear insights into what treasurers value in their banking providers and what is really driving their buying behaviour. For our study, conducted between November 2001 and March 2002, ClientKnowledge interviewed nearly 1,300 treasurers and users of relationship banking services at corporations across Europe, North America and the Asia-Pacific region.

The research was very comprehensive, yielding a mass of data. In this article, we will concentrate on our findings from the European research (with treasurers and CFOs of 665 multinational and international companies) and give a flavour of trends in the North American and Asia-Pacific markets, particularly where these differ from the European scene .

Using the results of our study, we set out to understand the relationship between the company and its banking partners. To do this, we needed to know not only what treasurers say they like and do not like about relationship banks, but also how they allocate their banking fees and what really drives their buying behaviour (see *Figure 1*).

CREDIT'S ROLE IN THE RELATIONSHIP. First, let us look at the role of credit – what part does it really play in the relationship? We wanted to know how treasurers funded their businesses over the previous year, and whether they gave specific business to banks as a direct result of funding.

Our European respondents told us they raised on average 44% of their funding from corporate lending (the remainder was mainly a mixture of term loans and syndicated bank debt, structured/issued debt and equity issuance), but only 38% of them told us, yes, they do give business to banks as a result of funding. Predominantly, it is FX that is awarded as a result of funding – 35% said they were awarding FX business on this basis (see *Figure 2*).

It is also interesting to note that European companies are using, on average, 10 banks for their corporate lending needs, 8.5 for foreign exchange and 8 for cash management .

Fact: only 38% of European treasurers say they award business to banks directly as a result of funding.

So credit does, as expected, have a role to play in the

FIGURE 1
WHAT DRIVES CORPORATE BUYING BEHAVIOUR?

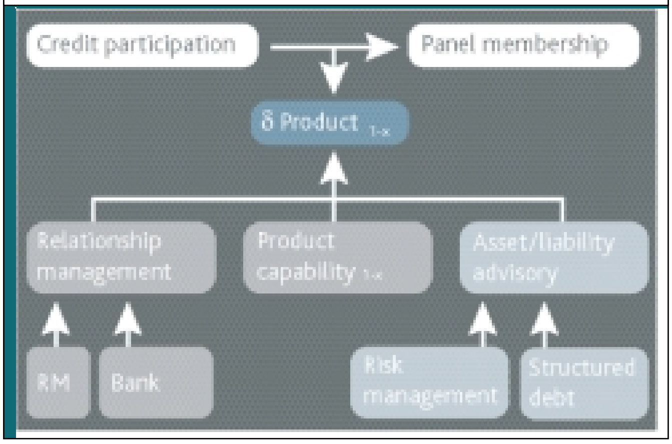
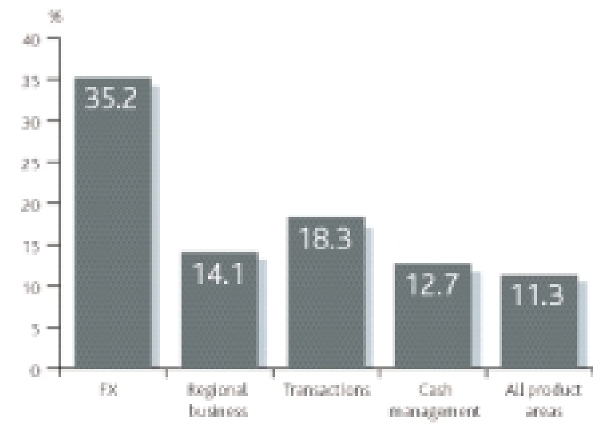


FIGURE 2
RESPONDENTS WHO ALLOCATED BUSINESS AS A RESULT OF FUNDING IN EUROPE.



‘TOO-FREQUENT APPROACHES FROM BANKS CAN HAVE A NEGATIVE EFFECT ON THE BUSINESS A TREASURER ALLOCATES THAT BANK – IT IS QUALITY, NOT QUANTITY, OF CONTACT THAT TREASURERS APPRECIATE’

relationship, but not a dominant one. In fact, we believe that credit is the entry price to the relationship, but that privileged provider status requires quite a lot more. We were also anxious to discover how banking providers differentiate themselves in what is, essentially, a commodity market. What else, we wondered, goes into the mix of a successful bank/corporate partnership?

ADVICE IS THE ‘GATEWAY’ TO THE RELATIONSHIP. We asked respondents to tell us how much of their business they were awarding to their top five relationship banks in each of eight relationship product/service areas: cash management, money markets, risk management, corporate lending, loans and syndicated debt, trade finance, leasing/asset finance, and structured/issued debt – and in two investment banking areas: M&A/re-structuring and equity issues. We correlated the recorded data to discover which of these products/services most strongly influenced others, or in other words, which were the products/services that act as gateways to a greater share of a company’s business in the other areas.

In Europe, we found that risk management and structured/issued debt – which together we refer to as asset/liability advisory – were the gateway products within the overall relationship (see the right hand side of *Figure 1*).

Fact: Where treasurers get good, proactive and timely advice on their standard and complex financing needs, they will reward the bank which provides that advice with business, over and above business awarded as a result of credit allocation.

It may come as a surprise to some bankers, but to few treasurers: simply pushing product on the back of a credit arrangement will only yield a superficial relationship. Bankers must really understand their clients’ business and then come forward with good solutions and new ideas. The bank that can have a positive impact on a company’s risk profile and, ultimately, contribute to its profitability, will be well rewarded. This approach is at the core of relationship banking.

In North America our analysis paints a similar picture, although we found treasurers in the US and Canada more likely than their peers in Europe and Asia-Pacific to buy cash management and relationship products on price alone .

In Asia-Pacific, for companies with no requirement for investment banking products and services, trade finance turned out to be the gateway to the relationship.

These then are the products and services that banks must deliver well to achieve the coveted privileged provider status with their corporate clients. This privileged provider status is certainly worth having, not least because once companies allow banks a place at their top table, they tend to keep them there. Our study showed that on average, a number one banking provider has 15 years of relationship history with the company, compared with nearly 10 years with its fifth most important relationship bank.

NOT-SO-SECRET INGREDIENTS. Good service and good people are an important part of the mix. As well as the products themselves, service and people – represented by the bank and the relationship manager and shown on the left-hand side of *Figure 1* – are also ingredients of any successful relationship.

When we statistically analysed the influence of different parts of a bank relationship manager’s skills set on the overall satisfaction of their clients, we found that quality of service and of advice are the strongest business drivers and much more important to client satisfaction than, for example, frequent telephone contacts or visits.

In the same way, a bank’s ability to deliver on its commitments, and the consistency of support offered, are more important drivers than some other aspects of a bank’s infrastructure (expertise in domestic markets, for example).

Note that in this context, delivery means overall delivery of the banking offer, not just the physical delivery channel. In fact, we would argue that banks have sometimes focused on channels to clients (that is, frequency of visits or online portals and other electronic delivery mechanisms) at the expense of the underlying quality of the product/service/advice being delivered. We saw evidence for this in the research. When we asked about the most important functions of a relationship banker, treasurers told us “understanding my business needs”. Some 44% of respondents thought this was key compared with 14.5% who mentioned “available for contact”.

Fact: Too-frequent approaches from banks can have a negative effect on the business a treasurer allocates that bank – it is quality, not quantity, of contact that treasurers appreciate.

WHO’S WHO IN THE RELATIONSHIP? About 75% of respondents in Europe and 79.5% of respondents in North America confirmed the treasurer as the most important individual in the day-to-day management of a company’s banking relationship – but the CFO still has an important say in how new business is awarded: 46% of respondents in Europe and 60% in North America named the CFO as the principal initiator of new banking business, indicating the route to a company’s heart and wallet can sometimes be complex.

Who do the corporate decision-makers want to talk to? Here, again, there are no easy answers for the banks. It depends. Our respondents indicated that they want a mix of relationship management generalists and product specialists to handle their banking requirements.

THE REAL STORY IS SUBTLER THAN THE RECEIVED WISDOM. Our study reveals that relationship issues are still important in a market regularly characterised as highly commoditised and dominated by a few large suppliers with deep pockets. It may be challenging news for those large players, but what our respondents are saying is that one size does not fit all, and there are no short cuts to full participation in their banking business. Asset/liability advice, not credit, is the true gateway to this business.

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