

A photograph of four business professionals (three men and one woman) sitting around a table, looking at documents. The word "business" is overlaid in a large, green, stylized font with a grid pattern in the background.

business

The logo for J.D. Power and Associates, featuring the name in a serif font with a horizontal line under "POWER" and "AND ASSOCIATES" in a smaller font below it.

J.D. POWER
AND ASSOCIATES®

2008 SMALL BUSINESS BANKING SATISFACTION STUDYSM

Key Takeaways Report

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The McGraw-Hill Companies logo, consisting of the text "The McGraw-Hill Companies" in a white sans-serif font on a yellow rectangular background.

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Key Takeaways

Introduction

According to National Small Business Association's most recent semi-annual report, two-thirds of small businesses believe they have been impacted by the credit crunch. Consistent with the Federal Reserve System's survey of loan officers, small businesses report tighter credit standards and terms. They share the same frustrations as consumers in obtaining credit, be it mortgages, auto loans, credit cards, or small business loans.

Despite this situation, small businesses remain optimistic, as 75% of small business owners say they are confident about the financial future of their company and 43% expect an increase in net profit during the next 12 months. So, while banks struggle with credit quality and capital adequacy issues, the need to step up and serve one of their most valuable types of customers is more crucial than ever. At the same time, the opportunities to acquire new customers are abundant.

It is against this mixed backdrop that J.D. Power and Associates launches the *2008 Small Business Banking Satisfaction Study*. Overall satisfaction has increased 23 points to 720 (on a 1,000-point scale) from 2007, driven by fewer problems, improved relationship manager contact, and more responsive in-branch experience in the form of shorter wait times. Yet improvement opportunities are clear, particularly in the area of relationship management, which is the second-most-important dimension of the small business banking experience, while satisfaction is third-lowest in importance.

High-profile mergers involving mega banks, along with the potential of additional consolidation resulting from credit and capital issues, raise the possibility of millions of small business customers being in market. As mergers and acquisitions have considerable negative impact on overall satisfaction, opportunities are created for other financial institutions to recruit disgruntled customers. However, acquiring financial institutions also have an opportunity to exceed expectations through reliable system conversions, well-trained and knowledgeable representatives, and minimal branch closures.

Ultimately, those institutions that can deliver a superior experience and improve customer commitment, emotional attachment, to their brands—even moderately—can expect incremental revenue gains of 4%-8% and deliver a correspondingly superior experience to their shareholders.



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What's New in 2008?

In addition to this Key Takeaways section, multiple Management Discussions have been included to address several new perspectives:

Top Performers—Discusses how top performing banks offer a better in-branch experience, communicate proactively, and run reliable operations to achieve high levels of satisfaction.

Customer Commitment: Gateway to Revenue Growth—Demonstrates how increasing the level of highly committed customers by 10% can increase revenue by \$47 million for every 100,000 small business customers and explains the drivers of commitment.

Small Business Credit Crunch: Meeting Customer Expectations during Difficult Lending Times—Reviews current credit trends and highlights the importance of managing customer expectations during the loan application process.

Mergers and Acquisitions: Impacts on Customer Satisfaction and Loyalty—Provides insights on defending—or attacking—vulnerable acquired customers by better relationship management, proactive communication, and targeted problem prevention and resolution.

Micro Business Customers: A Cross between Retail and Small Business Banking Customers—A look at the characteristics of micro businesses and recommendations on balancing customer needs fulfillment and resource constraints around relationship management, in-branch delivery, and credit services.



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Drivers of Satisfaction

The 2008 Small Business Banking Satisfaction Study Index is comprised of 7 factors: Transactions, Relationship, Products, Statements, Fees, Convenience, and Problem Resolution. The Transaction factor consists of 2 subfactors: In-Person and Online. Across all factors, customers were asked to rate 38 specific questions about their experience with their primary financial institution.

2008 Small Business Banking Satisfaction Study Index Model

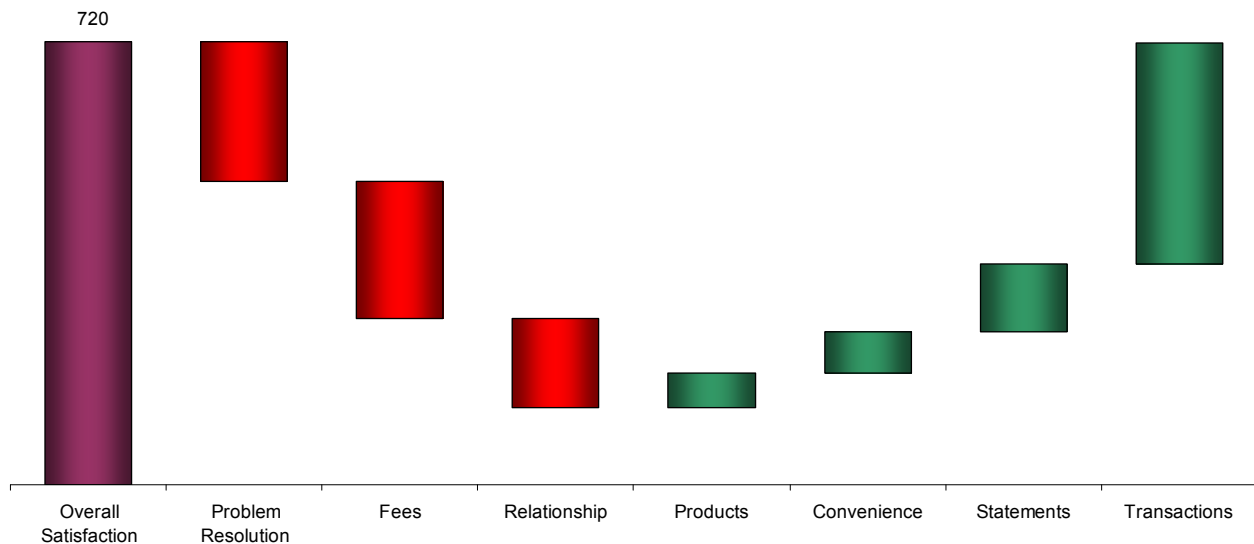


Weighted factor gaps are the difference between each factor and overall satisfaction multiplied by the factor importance weights—the largest negative gap depicts key areas to focus improvements. With respect to the *Small Business Banking Satisfaction Study*, the Fees and Problem Resolution factors represent the greatest opportunity for improvement among financial institutions. Relationship is another key area for improvement with a high importance factor weight and moderate performance gaps.



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Weighted Factor Gaps



Key Takeaways

Clear and consistent value propositions support new-customer acquisition

- ✦ Tangible value propositions appear to drive selection, suggesting that marketing campaigns must tap into differentiators to which customers have been exposed. Customers who select a bank for a particular reason often report experiencing elements of a value proposition reflecting that reason. For example, Commerce Bank (TD Bank) customers cite hours of operation is the most influential factor in selecting their financial institution. In fact, 97% of customer report their branch is open when they want it to be—specifically, 86% indicate their branch has extended hours and 98% state weekend hours available.
- ✦ Accordingly, satisfaction is lowest when small business banking customers select their bank based on an advertisement (630 points on a 1,000-point scale) vs. when they selected their bank based on reputation (768).

Retention starts with the initial brand promise and consistent post-boarding follow-up

- ✦ Increasing customer loyalty begins with attracting customers who are looking for more than simply free services and closer branches. A quality reputation and positive brand image play important roles in acquiring loyal customers. Customers must receive good service at the new-account opening phase of their banking relationship. Fully, 88% of loyal customers cite receiving follow up after opening their account, compared to 62% of at-risk customers.

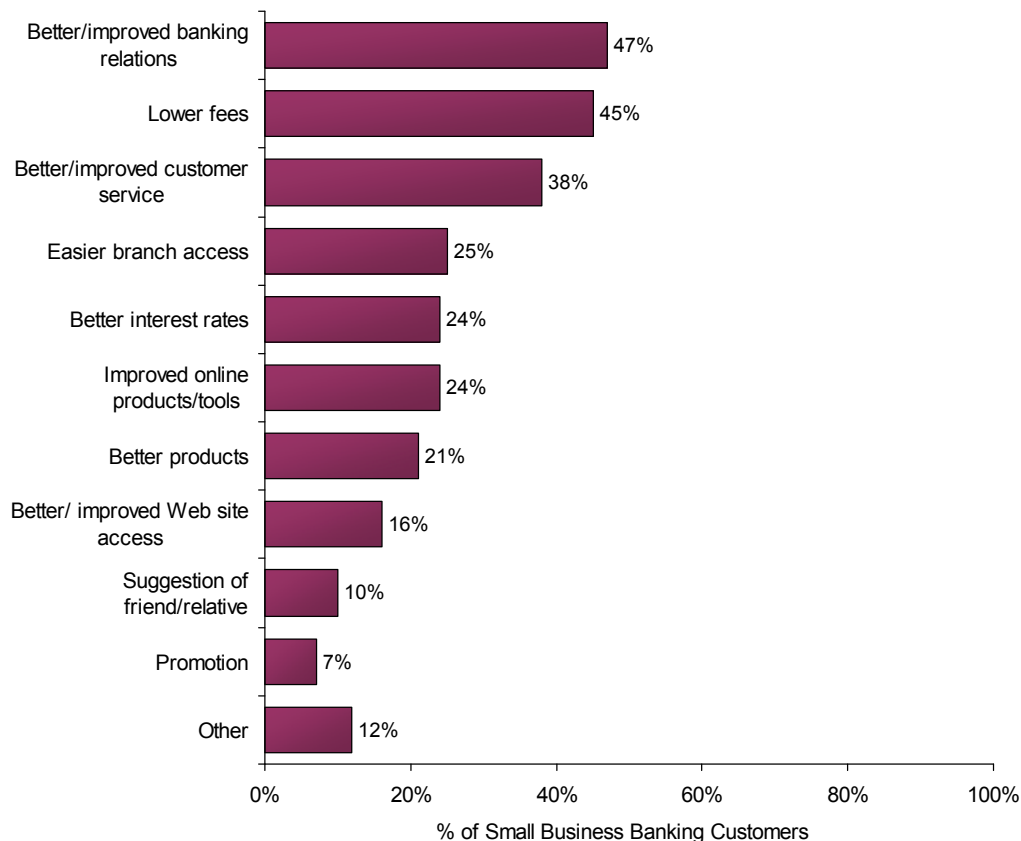


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Barriers to switching include solid relationships and links to personal banking

- ✦ The business banking/relationship manager is important—loyal customers more often cite interacting primarily with a bank manager while at-risk customers are more likely to interact with a bank teller. Loyal customers are also more likely to be assigned a business banker than are at-risk customers (58% vs. 34%).
- ✦ To curtail customer switching propensity, banks can erect some barriers. For example, compared to the industry customers citing it “very difficult” to switch more commonly interact with an assigned business banker and receive more contacts on average regarding products and services. Additionally, these customers use more business credit products (i.e., lines of credit) and are more likely to also have a personal banking relationship with their primary institution. Also, these customers more commonly interact with an assigned business banker and receive more contacts on average regarding products and services. It is important to note that relationships and poor customer service are key drivers of defection.

Reasons for Switching Financial Institutions





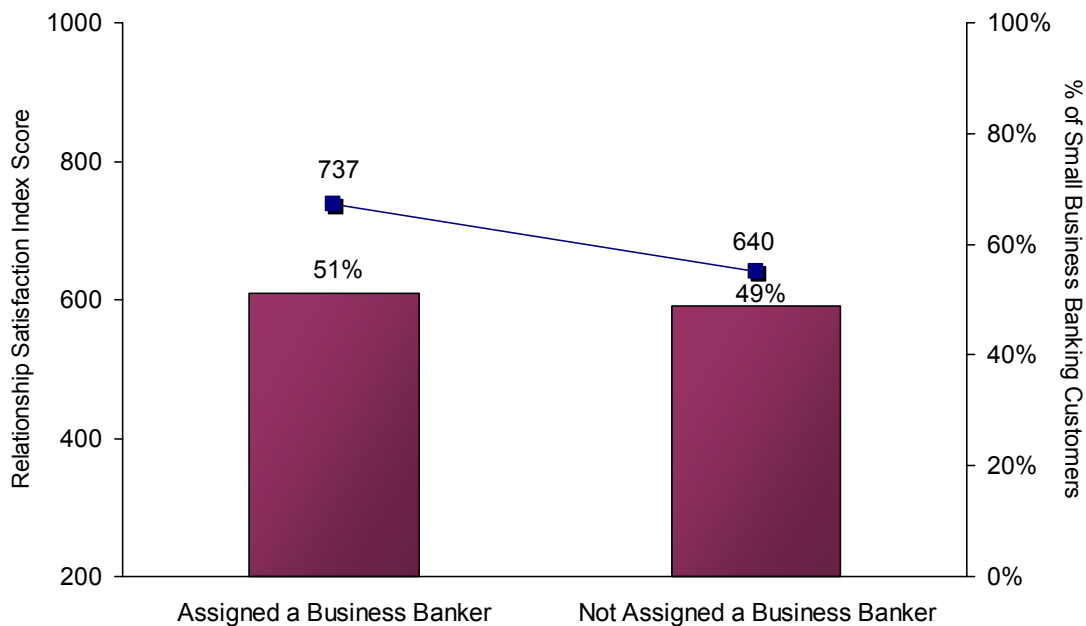
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RELATIONSHIP

Satisfaction with banking relationships are built on a dedicated business banker who has authority, understands business, and proactively communicates

- ✦ Relationship is critical to satisfying small business banking customers. Key relationship elements include assigning a dedicated representative, understanding the customers business, and proactive communication.
- ✦ More than half of small business customers report they have an assigned banker from their primary institution who is dedicated to their account. Satisfaction is 97 points higher when customers have a dedicated business banker. The lack of business bankers assigned to small business accounts creates opportunities for financial institutions differentiate themselves from the competition.

Have an Assigned Business Banker

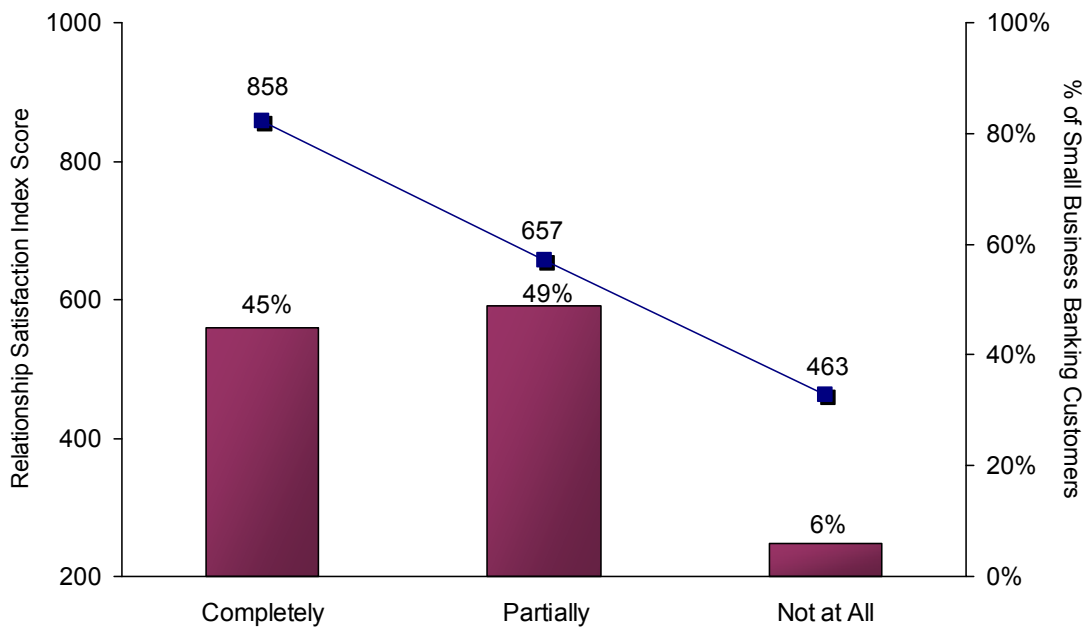




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- ✦ Having an assigned banker is only one aspect driving higher satisfaction levels. When customers have a business banker assigned, it is important for that individual to have a good understanding of the business needs of their small business banking customers.

Business Banker's Understanding of Your Business

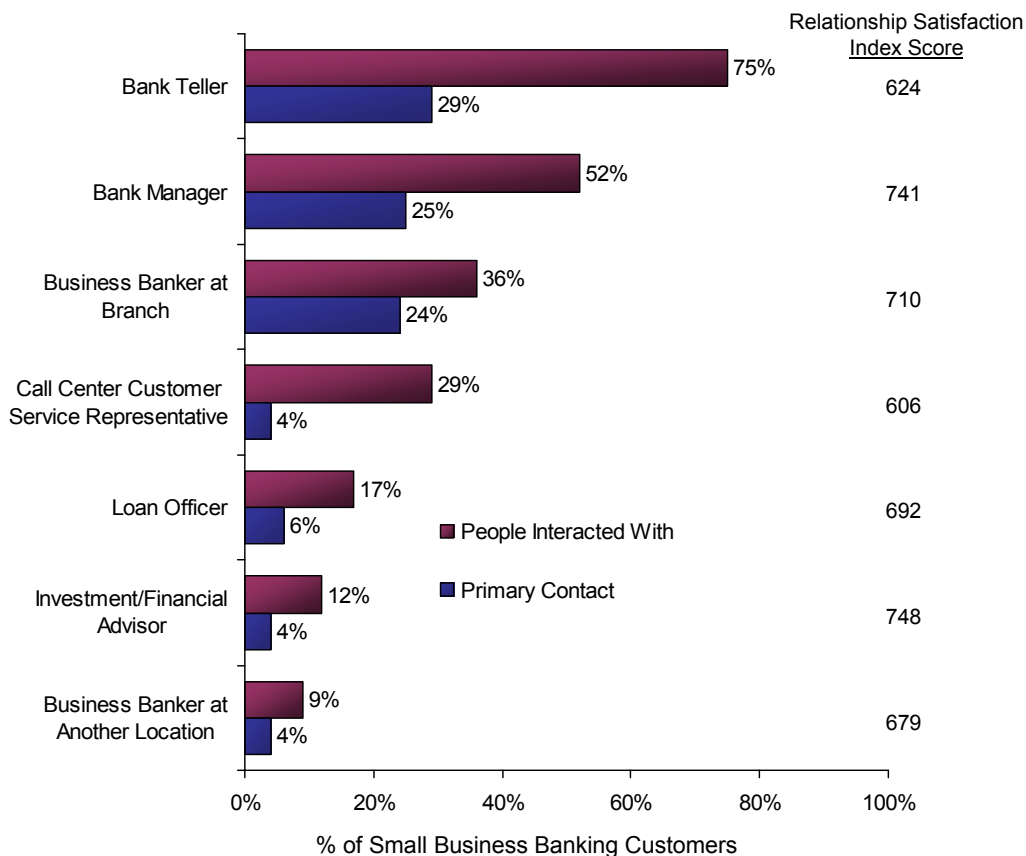




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- Small business banking customers want a primary contact who has some authority within the organization and can deliver results—bank managers, business bankers, and investment/financial advisors. However, since the nature of small businesses are typically transaction driven causing tellers to have an integral role in the relationship, it is imperative to ensure tellers are highly-trained and well-versed in answering common small business customers' questions.

Primary Contact and Satisfaction

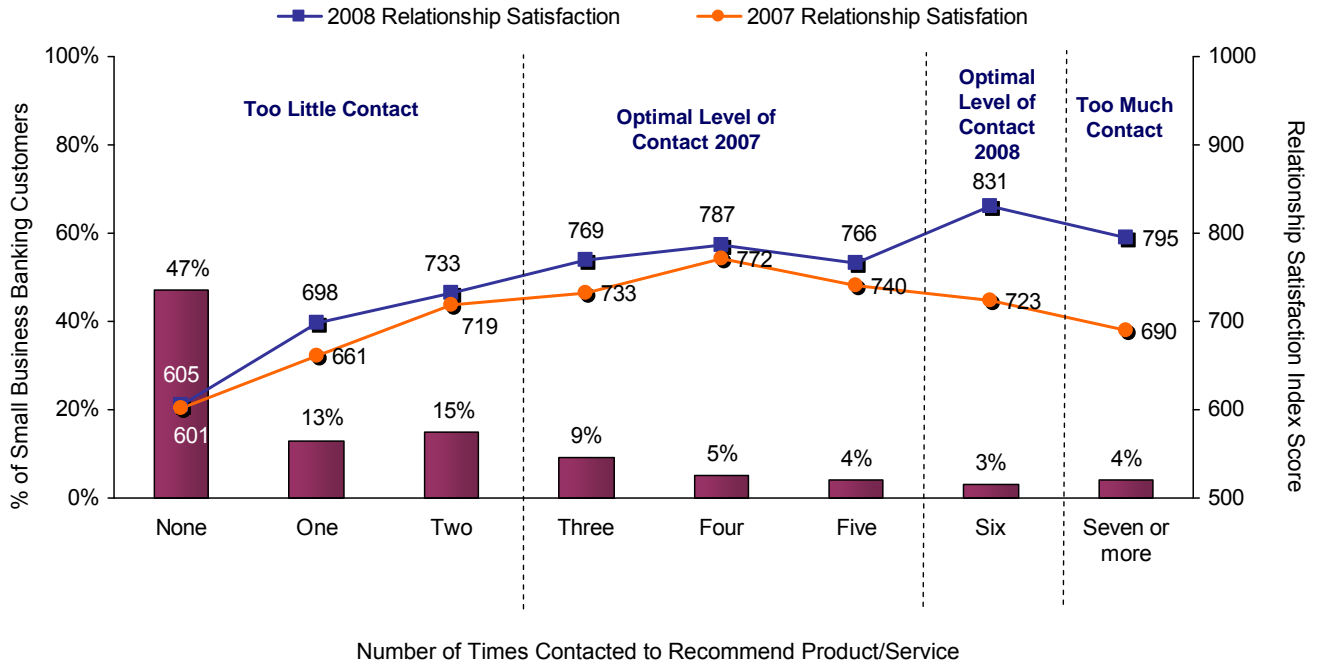


- The optimal level of contact is the same regardless of business size—across all sales volumes, customers want 6 contacts per year. However, one point of differentiation between business customers with low sales volume and high sales volume is that the impact of over-contacting has a much more substantial negative effect on satisfaction for business customers with low sales volumes.



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Number of Contacts



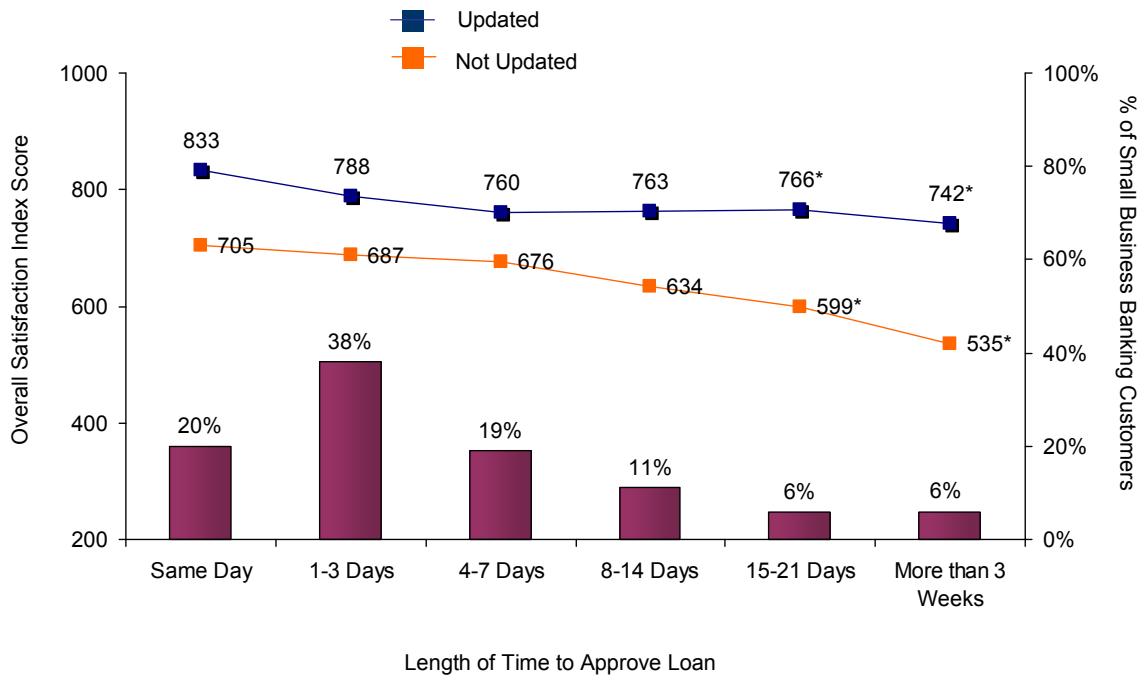


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Setting and managing expectations through proactive communication can influence satisfaction as strongly as the underlying experience itself

- ✦ Despite the length of time waited for loan approval, satisfaction is higher when customers receive proactive status updates from their financial institution.

Loan Approval Wait Time and Proactive Updates



Note:
*Small sample (n=30-99)

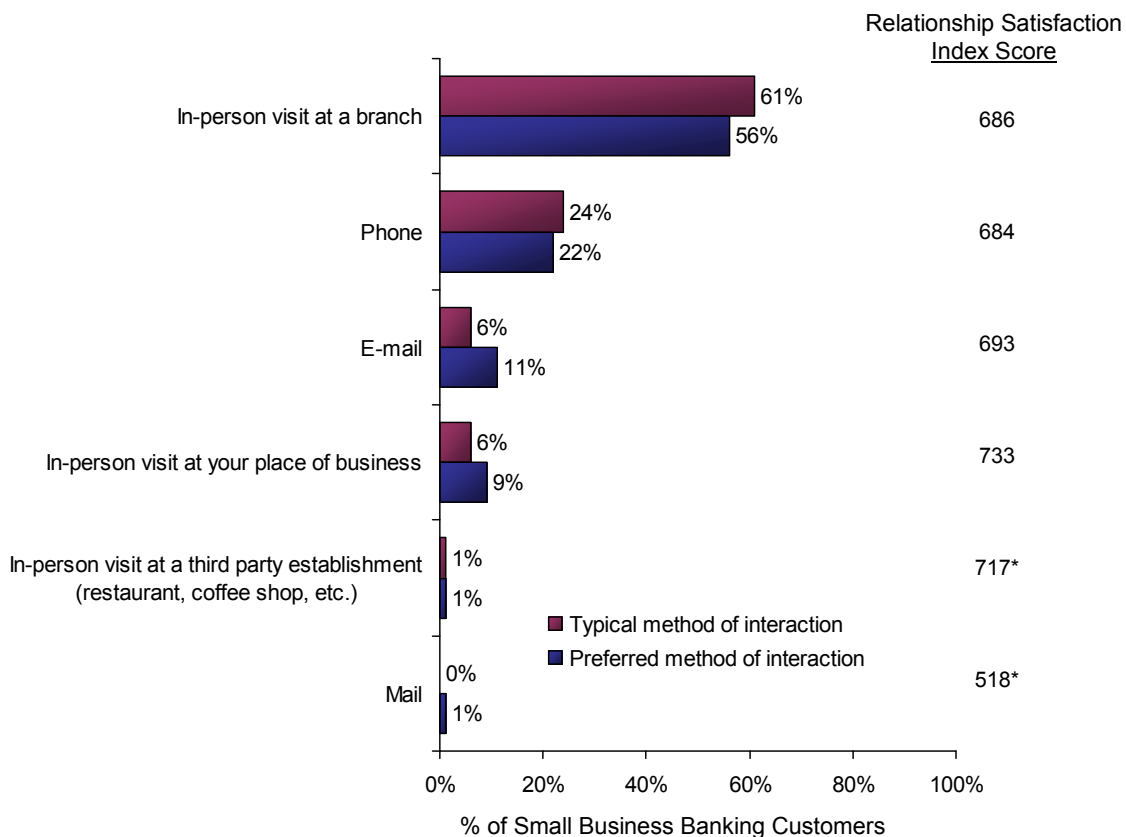


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Making the time to visit with customers at their place of business pays dividends

- ✦ Visiting small business customers at their place of business drives the highest level of satisfaction for the Relationship factor. However, most customers report the typical method of interaction with their bank is visiting a branch in person, which is the method of interaction rated third lowest.

Method of Interaction with Primary Contact



Note:

*Small sample (n=30-99)

PRODUCTS AND PRODUCT USAGE

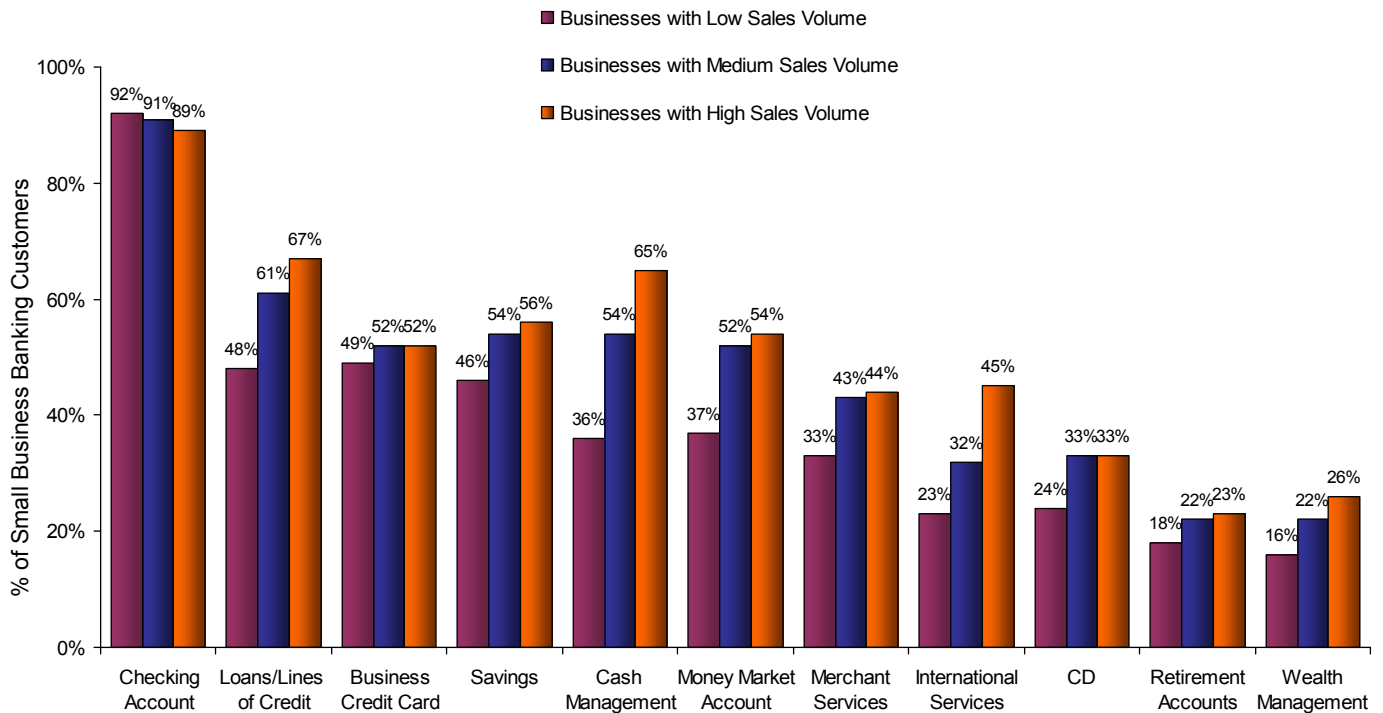
Use of cash management, loan products, and international services promote the growth of small businesses into larger businesses

- ✦ Checking accounts, credit cards, and deposit accounts are standard product packages for all small businesses but as companies grow and need additional product it becomes key for financial institutions to offer products such as loans, cash management services, and international services.



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Product Usage and Sales Volume



Impact of the credit crunch has resulted in fewer unsecured lines and diminished satisfaction with credit availability for regional banks

- Between 2007 and 2008, the amount of unsecured loans has decreased slightly (44% vs. 40%), with financial institutions becoming more hesitant to issue unsecured loans, a trend likely to continue into 2009. Satisfaction with the *Availability of credit* has declined since 2007 for mid-size regional banks.

Loans for capital investments are associated with highest levels of satisfaction

- Two-thirds of small business banking customers in the high sales volume group have a loan or line of credit with their primary institution, while 61% in the medium sales volume group use credit services. However, less than half of customers with low annual sales (48%) report using their primary financial institution's credit services. The products with the highest levels of satisfaction are associated with loans used for capital investments—such as commercial real estate and equipment loans—while secured loans have the lowest satisfaction, due to the requirement of a personal guarantee.

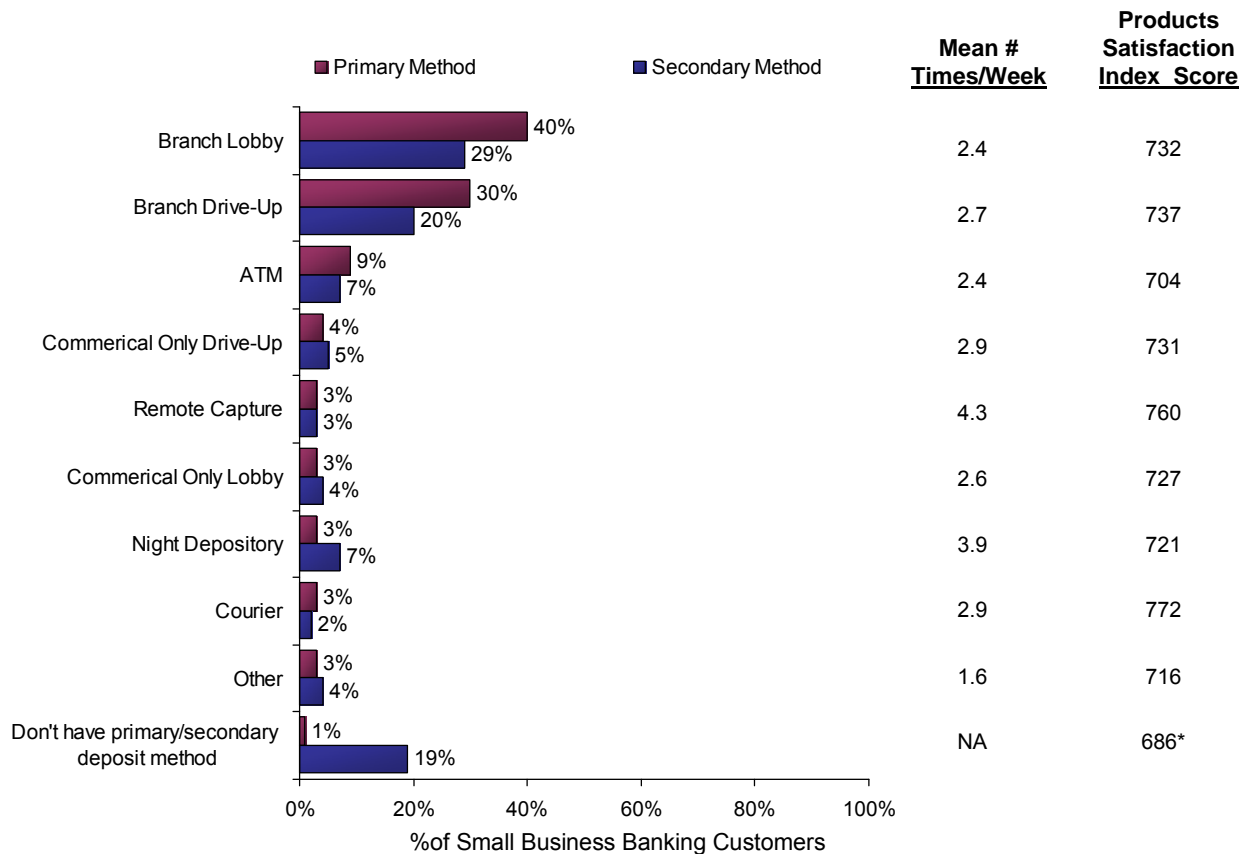


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Courier services and remote capture represent opportunities to differentiate and grow deposits, as satisfaction is high and utilization levels are low, yet the traditional approach of a special commercial window shows limited appeal

- Overall satisfaction in the Products factor is highest when customers use courier services (772) and remote capture (760)—two of the lowest-utilized methods of depositing—which make them areas of differentiation on which banks should focus. Also, customers who use remote capture as their primary method tend to make more deposits per week (4.3) than do customers who use any other deposit method.

Type of Deposit Methods



Note:

*Small sample (n=30-99)

- Small business customers utilizing the commercial-only window inside the branch or in the drive-up are slightly less satisfied than those small business customers using the same windows and drive-ups as do retail customers. This indicates that conveniences designed to enhance business customers' experiences are not achieving their objectives.



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While use of cash management services increases satisfaction, awareness levels of the breadth of typical product offerings remain low, highlighting the opportunity not only for additional sales, but also for satisfaction improvements

- ✦ Use of any cash management service improves small business banking customers' satisfaction with their primary financial institution, yet building awareness is a critical first step where opportunity to improve exists. While most small business customers are aware of basic cash management services (i.e., account transfers and wire transfers), products such as ACH collections and sweeps are lesser known. However it is important to note that services such as account transfers are essential products for managing a small business.

Retirement accounts and wealth management services, where usage is relatively high but share of wallet by primary bank is relatively low, also represent attractive up-sale potential

- ✦ Many small businesses choose a different financial institution than their primary financial institution to obtain products such as business credit cards, merchant services, retirement accounts, and wealth management services. Retirement accounts and wealth management services, in particular, provide strong cross-sale opportunities based on the relatively high use at secondary institutions, the capability of primary firms to offer these services, and the potential for a long-term relationship the represent.

New account follow-up is fundamental to present additional products at a time when customers are most receptive, and also drives higher levels of satisfaction

- ✦ Fully 16% of small business banking customers report that they opened a new account with their primary institution during the past 6 months. Of these, 82% say that they received a follow-up—considerably more than reported by retail banking customers (66%) in the 2008 Retail Banking Satisfaction Study. Overall satisfaction is 70 points higher when customers receive a follow-up after opening an account (745 vs. 675). Timing of follow-up is crucial to sustaining the increase in satisfaction from such communication. Satisfaction is highest when follow-up occurs on the same day the account is opened. After 4 days, however, satisfaction drops considerably, making it important to follow up within that time frame.



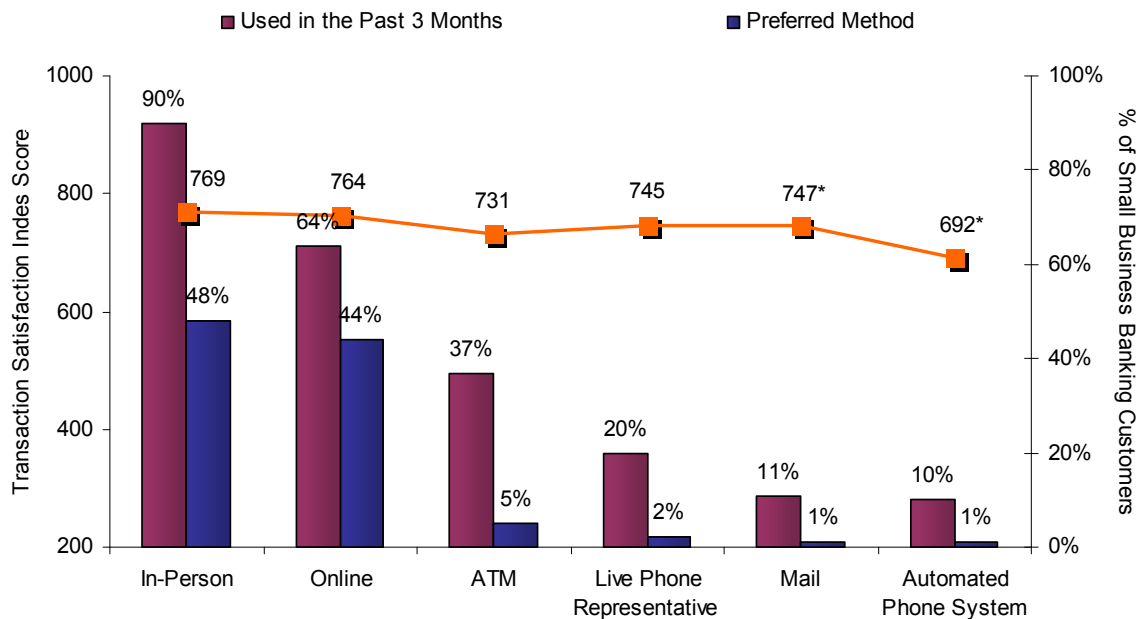
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TRANSACTIONS

Branch and online are the primary transaction channels used by small business customers, with approximately half using each channel and reporting similar levels of satisfaction

- ✦ Nine in ten small business banking customers report they have used the branch to conduct transactions during the previous 3 months, with 48% reporting the branch as their preferred method. Online is also a widely used service channel, with nearly two-thirds of customers reporting they use their bank's Web site to conduct their banking business, and 44% saying they prefer to conduct transactions online.

Transaction Channel Usage and Satisfaction



Note:
*Small sample (n=30-99)



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- Businesses with lower sales volume (\$100,000 to \$1 million) prefer the branch for their transactions, while businesses with higher sales volume (\$5 million to \$10 million) prefer the online service channel.

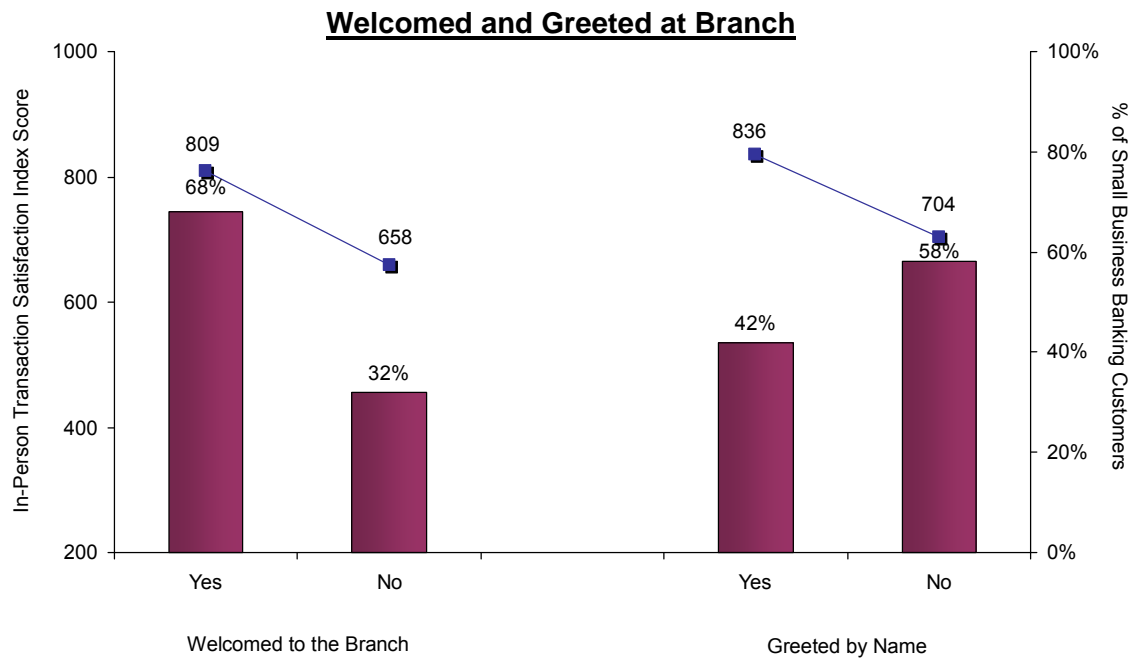
Transaction Method Typically Used to...	In-Person	ATM	Online	Automated Phone	Live Phone Rep.	Mail
Deposit funds	81%	9%	7%	0%	0%	3%
Withdraw funds	48%	31%	18%	1%	1%	1%
Apply for additional products	58%	1%	28%	1%	12%	1%
Check balances	7%	2%	81%	6%	2%	2%
Transfer funds	16%	2%	73%	3%	6%	0%
Stop payments	28%	1%	45%	3%	23%	1%
Make general inquiries/questions	35%	1%	23%	3%	38%	0%
Coin/currency orders	75%	1%	14%	2%	7%	1%
Update business info	34%	1%	48%	1%	15%	1%
Make payments	24%	1%	62%	1%	1%	10%



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The simple gesture of welcoming customers to the branch and using their names—or failure to do so—drive significant differences in satisfaction

- ✦ Satisfaction in the In-Person Transactions subfactor declines by more than 150 points when a customer is not welcomed as they enter the branch. When customers are greeted by name, satisfaction increases by 132 points.



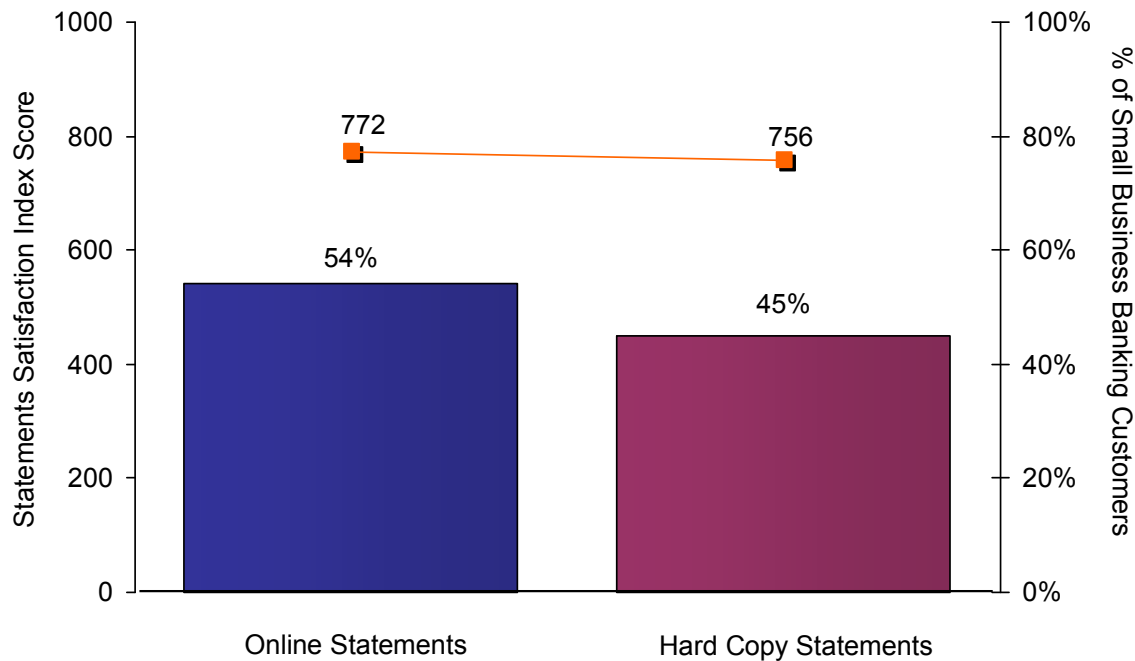


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Small business receptivity to online statements suggests an opportunity for substantial cost savings

- ✦ Paperless—or online—statements not only foster higher satisfaction with financial institutions but also save money. Converting 50,000 customers to online statements can save financial institutions an estimated \$1.2 million per year (printing and postage costs are estimated at \$2 per month or \$24 per year per customer).

Statement Method Usage and Satisfaction



Branch convenience is a function not of number of branches or operating hours alone, but of both

- ✦ *Ease of accessing your branch* accounts for 41% of the Convenience factor. Customers who rate this attribute low indicate parking is the primary issue for their dissatisfaction. Other problems customers cite are related to the building being located near a busy road and not having easy access or availability to drive-up teller windows or ATMs.
- ✦ Overall Convenience satisfaction is dependent on providing a complete package of time and location. Offering more branch locations is insufficient if attractive business hours aren't included.



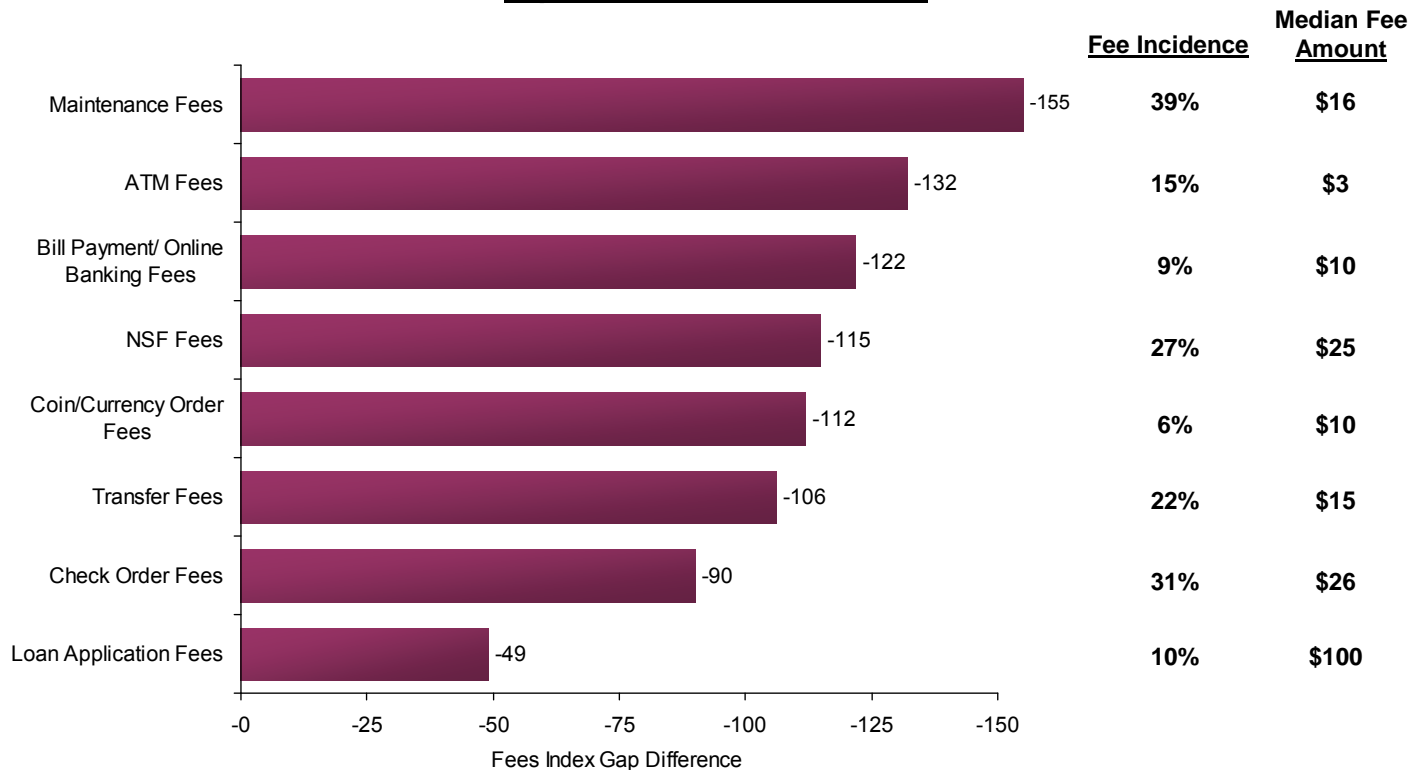
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FEES

While the negative impact of paying fees is more severe on small business customers than on retail banking customers, delivery of a superior experience may desensitize customers to fees and induce paying for premium service

- Small business banking customers are less tolerant about paying fees than are retail banking customers. Overall, all types of fees have greater impact on small business customer satisfaction when compared to retail banking.

Impact of Fees on Satisfaction



Notes:

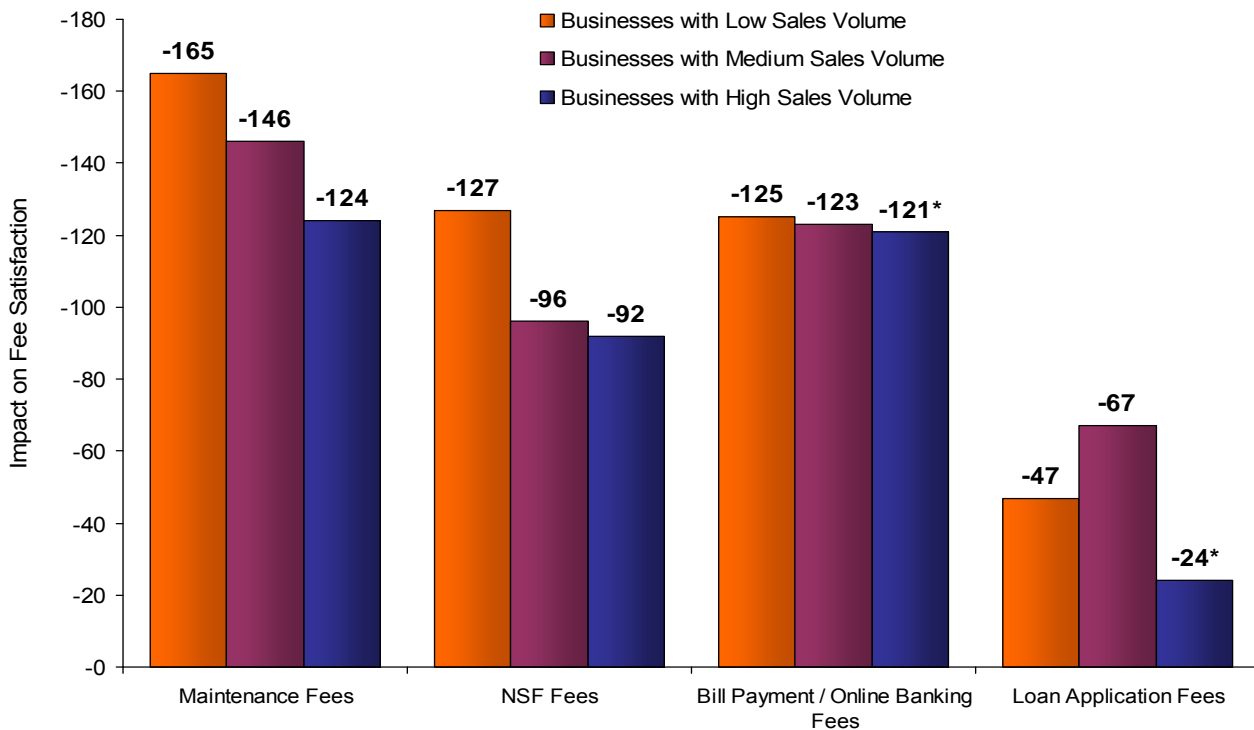
- Shows the negative gap difference in scores for those who are charged fees and those who are not



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- ✦ An analysis of tolerance for fees tolerance among small businesses with varying sales volume shows that small business banking customers with high sales volume (\$5 million to \$10 million) have the highest tolerance for fees, while customers with low sales volume (\$100,000 to \$1 million) have the least tolerance for fees. Account maintenance fees have the greatest negative impact on customers with low sales volume. Among low sales volume customers, the reaction to fees is driven by a lack of understanding the fee schedule and a greater inconsistency of fees from month to month.

Impact of Fees by Company Sales Volume



Notes:

*Small sample (n=30-99)

-Fee impact is calculated by comparing satisfaction levels of those experiencing a fee compared to those who are not.



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- ✦ Sensitivity to fees can be reduced by delivering superior customer service, such as, assigning a business banker, in-person explanation of fee schedule, proactive updates loan status, and in-person greetings.

	Customers Charged High Maintenance Fees (\$26 or more)	
	Highly Satisfied (801 and above on a 1000-point scale)	Dissatisfied (0 to 500 on a 1000- point scale)
Representative/Business Banker Overall	9.13	3.42*
Have an assigned business banker/private banker/branch manager	69%	36%*
My assigned business banker completely understands my business	77%*	3%*
Number of times contacted to recommend product/service	2.5	2.1*
Overall Credit Experience	9.02*	4.05*
Time spent discussing different loan options (minutes)	34.7*	15.7*
Updated on the status of your most recent loan/line without asking	74%*	29%*
Interest rate on most recent loan/line	7.03%*	7.80%*
In-Person Services Overall	9.32	4.67*
Fee structure explained in-person	61%	29%*
Bank representative greeted me by name	59%	17%*
Length of time waiting for teller/representative (minutes)	3.4	8.4*

Note:

*Small Sample (n=30-99)