

Providing Comprehensive Non-financial Services to SMEs in Turkey: A Success Story for Both Bank and Clients

Türk Ekonomi Bankası (TEB)

CASE STUDY



TEB

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Introduction

Despite being a latecomer to the Turkish SME banking sector, Türk Ekonomi Bankası (TEB) is now a market leader among Turkish banks in experimenting with new approaches to help small and medium enterprises (SMEs) improve their business practices and achieve growth.

TEB believed that providing capacity-building support to small and medium companies could have enormous potential in building a client base of healthy businesses, gaining new SME clients, increasing customer loyalty, and decreasing credit risk in the SME sector. With visionary leadership and steadfast commitment from TEB's CEO, board, and senior management, the bank has developed and implemented training, consulting, and information-sharing services for the past six years.

The results are impressive. The number of the bank's SME clients increased from under 20,000 in 2005 to just over 700,000 in 2011;¹ its SME loans as a share of total loans grew from 25% in 2006 to 44% by 2011; and loan delinquency rates in its SME portfolio decreased. Driven by the success in Turkey, BNP Paribas (one of TEB's larger shareholders) replicated some of TEB's non-financial services in Algeria and is looking to further replicate this model in select European markets.

This case study reveals how TEB's leadership made the decision to enter the SME market with a different banking approach centered on the provision of non-financial services. It also describes key aspects of this approach and how it has generated strong bottom-line results for the bank.

¹ These numbers also reflect a merger with Fortis Bank in 2010.

Background

TEB was originally established in 1927 as a small-scale regional bank (named Kocaeli Bankası). By 2004, it had grown into an established Turkish banking brand, covering all geographic regions of the country with operations in corporate, commercial, retail, private banking, and treasury activities. TEB was very strong in corporate banking, serving large top-tier Turkish and international blue-chip companies. Reflecting this corporate orientation, its systems and approach were geared toward meeting the banking needs of large firms and were characterized by long-term relationships and low-volume, high-value transactions.

Although TEB's traditional focus on corporate banking achieved favorable results and helped the bank build its reputation among clients as a trusted partner, TEB realized that it needed to innovate in order to maintain its edge in an increasingly competitive banking industry. By the mid-2000s, securing new business from Turkey's largest corporations was becoming increasingly difficult owing to heightened competition and the corporate sector's relatively slow growth following Turkey's financial crisis in 2000–2001. As a result, profit expectations for the corporate banking sector were considerably lower than they had been in the past.

To counter this situation, TEB senior management knew that the bank's existing model and client mix would need to be adapted if TEB hoped to maintain and improve its market position in the highly competitive Turkish banking sector. Specifically, TEB would have to focus more aggressively on developing new domestic markets with higher prospects of profitability. Drawing upon their personal experience as former relationship managers and branch managers, TEB decision makers knew that Turkey's burgeoning SME market had a high profit potential and was also underserved by the bank's competitors. Senior management also knew that many of Turkey's larger banks had already been starting to eye the SME market, for the same reasons TEB was taking an interest in this segment.

For these reasons, in 2004, TEB's management surveyed the Turkish banking landscape to better understand the emerging trend of increased bank lending to SMEs. TEB's market research confirmed senior management's suspicion that the SME market was expanding far more rapidly than the corporate market (see Table 1 below). Research also confirmed that some of TEB's larger competitors were moving into SME banking as well. As a result of these factors, TEB decided to enter the SME banking market.

Developing an SME Banking Strategy

SMEs represented an attractive market to TEB. According to the Turkish Statistical Institute, in 2002, there were approximately 1.85 million micro, small, and medium enterprises (MSMEs)² compared with approximately 1,850 large enterprises (see Table 1). Moreover, the government data showed that SMEs were outpacing the large-enterprise sector in terms of number of businesses. For example, the number of SME businesses increased by 172% from 1992 to 2002, significantly more than the large-enterprise sector, which grew by 96% in the same time period. Clearly, the SME banking market was expanding faster than the large-enterprise market in Turkey. TEB management knew from market contacts and personal experience that the sector was underbanked and untapped, presenting an attractive market opportunity for TEB.

However, the large size of the SME segment, combined with the fact that TEB was a relative latecomer entering the SME market, required that the bank formulate an effective strategy that would enable it to focus as well as differentiate itself from other banks. Competing on price was not a viable option

because, as a new player in the SME market, TEB needed time to develop the appropriate risk-adjusted pricing structure for its SME products and services. Also, TEB would have difficulty competing on volume, because it had a narrower branch network than its larger bank competitors: TEB had 113 branches, compared to larger banks that had at least 600.

As a starting point for expanding its SME banking business, TEB decided to extend the strong brand recognition and trust that it had built with its corporate clients to SMEs by targeting smaller companies that were suppliers and distributors of TEB's larger customers as well as SMEs that were already in the bank's existing portfolio.

However, TEB knew that to capture a significant share of the SME sector, it would have to innovate and provide SMEs with something that other banks did not offer. Toward this end, senior management invested significant resources to learn about the unsatisfied demands of Turkish SMEs in terms of financial and non-financial support from banks.

Table 1: Turkish Firms by Size and Growth of Sector, 1992–2002

Enterprise size	No. of employees ^a	No. of enterprises 1992	No. of enterprises 2002	% increase 1992–2002
Micro	1-9	1,047,102	1,788,835	70.8%
Small	10-49	21,200	58,521	176%
Medium	50-250	3,663	8,984	145%
Large	251+	943	1,851	96%
Total		1,072,908	1,858,191	73%

^a TEB's SME definition mirrors the Turkish government's definition, but the ranges are slightly different. Based on annual turnover (in US\$), TEB's categories are as follows: micro = less than \$1 million; small = between \$1 million and \$10 million; medium = between \$10 million and \$20 million.

Source: Turkish Statistical Institute

² "SMEs" in this case study refers to MSMEs, because TEB groups microenterprises together with SMEs in its small business banking and non-financial services.

Understanding the Turkish SME Banking Client

TEB realized that the financial sector was not equipped to deeply analyze the behaviors and workings of SMEs, and that it could gain a comparative advantage by developing intimate knowledge of the SME market. To do so, it conducted an unofficial market survey to gather primary research and tasked relationship managers (RMs) at the branch level to share information with bank management about SMEs' banking behaviors and preferences, based on their observations, interactions, and data on their current customer base.

Through this market research, TEB learned that Turkish SMEs face three key challenges in growing their businesses: (1) limited access to information, (2) lack of technological know-how, and (3) limited capacity for research and development. Of these three constraints, TEB found that limited access to information was the most pressing problem; SMEs lacked market information as well as knowledge about long-term business planning.

TEB's clients face a challenge common to SMEs around the world—an unsophisticated understanding of markets and market demand. They tend to sell what they can produce based on their technical knowledge and production capacity instead of what the market demands. SME owners typically lack the resources or skills to conduct market research on the preferences of domestic and international consumers. They also have limited access to information about market prices and other important market data. This has tremendous implications for both SMEs and the banks supplying finance to SMEs. If the gap between production and market demand is too large, the business can experience declining profits and may be in danger of defaulting on its bank loan. TEB recognized an opportunity to help SMEs address the problems of poor access to information and limited business-planning skills.

Formation of TEB's Value Proposition to SMEs

Based on its market research, TEB decided that a cornerstone of its SME strategy would be the design and delivery of comprehensive and innovative non-financial services to SMEs. Every non-financial service—consultancy, training, and information sharing—was designed to achieve the greater goal of supporting SMEs in strategically planning their future and growing their business. Such an approach would yield strong benefits both to SMEs in terms of growth and to the bank through increased profitability in its SME portfolio. TEB also believed that providing capacity-building services would allow SME clients to feel that their needs had been understood and addressed by the bank and this would build their trust, make them more loyal bank clients, and encourage them to use more financial products and services offered by TEB.

TEB set out to become not only a bank for SMEs but also their provider of technical services. The bank would not only focus on the financial needs of its clients, but also address their non-financial business problems. This was the unique value proposition TEB planned to offer. (See Figure 1 for a list of TEB's SME banking products.)

Figure 1: TEB's Standard Banking Products for SMEs

Cash loans for working capital
Cash loans for investment
Letters of credit and loan guarantees
Receivable discounts (including export)
Import and export transactions
Cash management solutions
Time deposits, mutual funds, and treasury bills
Supplementary services: insurance, factoring, and leasing

Designing and Rolling Out New Non-financial Services

ESTABLISHING A DEDICATED SME BANKING DEPARTMENT

In mid-2004, TEB established a dedicated SME Banking Department and began to develop the necessary organizational infrastructure to support the delivery of its non-financial services and banking approach to SMEs. At the time, the department started with a team of four staff members in headquarters—which since has grown to 60 staff members in the SME Banking Group, including sales, marketing, product, and strategy departments—to manage TEB's SME banking operations, including the oversight of all its non-financial services.

DEVELOPING A COMPREHENSIVE BUSINESS PLAN

Entering new territory required serious commitment and planning. A business plan covering a three-year period guided TEB in all aspects of the process. TEB management invested the time up front to define its vision and strategy for SME banking, determine its financial goals, and decide on plans for marketing, finance, operations, and human resources. Moreover, management decided to cover the start-up investment costs and ongoing operational costs from the bank's core business budget.

Contrary to conventional practice, TEB initially made a conscious decision that it would not charge fees for the majority of its non-financial services. As TEB's relationship managers knew, many Turkish SMEs did not have the time or feel the need to attend trainings or seek opportunities to invest in business education opportunities. The RMs were skeptical that SMEs would be willing to pay for capacity-building services they did not believe would benefit them. The first step toward motivating SMEs to engage with TEB was to increase the SME owners' awareness that they needed support and that there is value in learning new business concepts and skills. After attending training or receiving consultancy advice

from the bank, they would understand how long-term business planning and other business tactics like market research could improve their businesses. Sustained engagement could potentially lead to long-term bank loyalty and cross-selling of financial products.

Experimenting with New Ideas

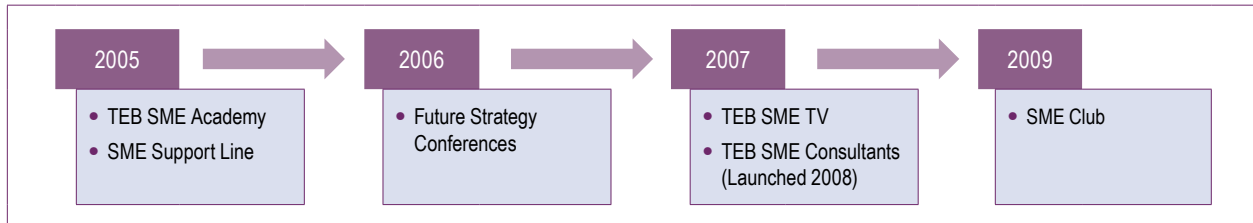
Through a phased approach, TEB created a comprehensive package of non-financial services: TEB SME Academy, TEB SME TV, TEB SME Club, TEB SME Support Line, TEB SME Consultants, Future Strategy Conferences,³ and a CSR Project (2007).⁴ Clients select individual services based on their needs. TEB designed TEB SME Academy and SME Support Line early on, and the other non-financial service offerings evolved over time (see Figure 2), as the bank continued to learn about its SME clients' non-financial needs.

Starting with TEB SME Academy

TEB began offering training services to both SME clients and prospective clients in 2005 through TEB SME Academy. This initiative is a training program that aims to help SMEs increase their competitiveness in local and global markets and to enhance SMEs' strategic-planning capacity. The training events are offered on a monthly basis in different Turkish cities. The bank developed a strategic partnership with *Girisim Danismanlik*, one of Turkey's leading companies in SME training and consulting services, to leverage the firm's expertise and help build the success of TEB's training program.

³ TEB implements the Future Strategy Conferences initiative, which convenes the bank, local government officials, private-sector leaders, and other city stakeholders to engage in strategic planning for local economic development planning. This initiative is not covered in this case study.

⁴ TEB also manages the SME Corporate Social Responsibility (CSR) Project, financed by a 12-year loan agreement with Agence Française de Développement (AFD) valued at 40 million euros. The project aims to create CSR awareness among Turkish SMEs. This project is not covered in this case study.

Figure 2: TEB's Non-financial Service Offerings

Four important design and implementation principles helped make TEB SME Academy a successful offering for Turkish SMEs:

1. KEEP IT SHORT AND ACCESSIBLE

First, the training is limited to a one-day session. SME owners and managers are very busy with day-to-day management issues and cannot afford to attend lengthy trainings.

2. MAKE IT RELEVANT TO SME NEEDS

Second, TEB makes the training relevant to the needs of Turkish SMEs. Based on previous market research, the bank decided to focus the training content on strategic planning and competitiveness. As mentioned above, many SMEs do not engage in strategic planning and do not have long-term growth strategies. The training aims to build their capacity for strategic planning, to understand their business from the perspective of the market, and to identify and respond to market opportunities for their products and services. Furthermore, TEB SME Academy offers workshops that address other business needs identified in TEB's market research: foreign trade, growth strategies, and process management.

3. ENSURE INTERACTION AND MUTUAL LEARNING

Third, the training structure caters to different learning styles and provides opportunities for interaction. TEB SME Academy includes expert lectures along with interactive workshops and case-based learning examples. The interactive learning workshops are a strong focus of training events because

they allow SME participants themselves to select topics most relevant to their businesses and to network with other businesses.

4. LEVERAGE CONTENT EXPERTS

Fourth, TEB recruits reputable SME topic experts to deliver lectures for TEB SME Academy that have credibility with an SME audience. Education and experience credentials are important for trainers and instructors in Turkish culture. Therefore, TEB successfully secures respected SME figures—such as tax law experts, foreign trade experts, and well-known SME authorities—to serve as guest speakers.

Successful implementation of these four training principles has been key to TEB SME Academy's success (see Figure 3 for an example of how the program is designed according to these principles). Since 2005, TEB SME Academy has delivered more than 50 training sessions in 32 cities and achieved participation by more than 10,000 businessmen and women. Although SMEs do not pay to attend the training, TEB SME Academy helps bring bottom-line results to TEB's SME portfolio. It provides a forum for bank staff to initiate direct contact with SMEs and bring new clients to the bank. TEB's data show that 60% of attendees are clients and 40% are prospective clients, and that 60% of these prospective clients end up becoming clients. Additionally, through the SME Academy, the bank deepens its relationships with its existing client participants, creates strong brand recognition and demonstrates TEB's commitment to and leadership in the SME sector.

Figure 3: TEB SME Academy Training Sample Agenda
(Varies by Event)

09:15 – 09:30	Registration
09:30 – 09:45	Opening Speeches (TEB General Manager & Presidents of SME related NGOs)
09:45 – 10:00	TEB SME Banking Approach (TEB SME Banking Ass. General Manager)
10:00 – 10:45	Recent Changes in Tax Legislation (Tax Expert Ph.D. Sükrü Kizilot)
10:45 – 11:00	Coffee Break
11:00 – 11:30	Global Competition, State of Play of Turkish SMEs and Future Strategy Alternatives (TEB SME Consultant, Ph.D. Tamer Muftuoglu)
11:30 – 12:30	Turning “Growth” into “Corporate Development” for SMEs (Consultant Firm)
12:30 – 13:30	Lunch
13:30 – 17:30	Workshops

Deepening the Approach through TEB SME Consultants

TEB SME Consultants is a non-financial service offering that complements TEB SME Academy. While TEB’s SME Academy training-delivery model reaches a large number of Turkish SMEs with a “low-touch” service,⁵ TEB SME Consultants service takes SME support to a much deeper level and provides a “high-touch” service.

TEB management believes it is important to understand the full potential and risks of its SME clients. Therefore, it adopted a 360-degree approach in analyzing its clients so that the bank has a more comprehensive assessment of a client’s company, understanding not only the financial aspects of the business, but also its business strategy, production, sales and marketing, human resources, and organizational infrastructure.

Management launched TEB SME Consultants in 2008 to implement this new approach to banking SME clients. Through TEB SME Consultants, highly trained RMs provide free one-on-one consulting services to the bank’s SME customers.⁶ The relationship begins with a detailed company analysis report. The RMs, trained as consultants, analyze the client’s business to identify strengths, detect business problems, and provide a data-driven basis for recommendations.

This is a highly innovative approach to offering non-financial services. It can potentially strengthen SME business performance and thus reduce loan delinquency risk. However, there is the risk in this approach that SMEs may blame TEB for bad advice in cases where the business performs poorly or defaults on its bank loan.

To address this concern, TEB management has made an important distinction between consultancy recommendations and business suggestions. The bank does not provide direct consulting services to SMEs as management consulting firms do. Instead, trained RMs assess SME clients from a non-financial perspective, in addition to the standard financial analysis, and use this as a basis for diagnosing business problems and offering related suggestions. TEB’s clients then decide for themselves whether to receive these suggestions and apply them to their businesses. Over the past three years, TEB reports that it has not encountered any conflict-of-interest cases in its SME Consultants program.

TEB’s consultants make sound suggestions, grounded in the extensive business management training they have received. Their training spans two years, in three phases: SME Guide, SME Expert, and SME Consultant (see Table 2 for a description of each phase). The TEB SME Consultants program requires significant investment in TEB’s RMs in terms of financial resources, time, and partnerships. TEB’s SME Banking Department works in collaboration with the bank’s training department, with Girisim Danismanlik consulting

⁵ A low-touch service is characterized by a low level of tailored personal contact with customers, as opposed to a high-touch service, which is defined by high level of customized, direct contact with customers.

⁶ Recently, TEB has also launched a similar consultancy program for micro clients called Micro Business Experts.

Table 2: TEB SME Consultants Training Phases

Phase	Qualification	Period	Role
SME Guide	RMs (assistant branch managers) who have worked at least 6 months at TEB and have good performance on their banking scorecard can qualify for the training.	Training lasts for 5-6 months.	Through company analysis reports, determine existing problems of SME clients and assess businesses in terms of strategic management, growth management, and enterprise operations.
SME Expert	Completion of SME Guide training. Good performance on banking scorecard.	Training lasts for 5-6 months and is certified by TOBB Economy and Technology University.	Provide guidance and suggestions to SME clients in one of four specialized business areas: <ol style="list-style-type: none"> 1. Domestic sales and marketing 2. Foreign trade 3. Production management 4. Finance management
SME Consultant	Completion of two different SME Expert trainings. Good performance on banking scorecard.	Level can be reached at the end of 24 months.	Consult SME clients, drawing on broad knowledge and solutions expertise. Consultancy will be offered in <ol style="list-style-type: none"> 1. Sales and marketing 2. Reconstruction 3. Investment management

firm, and with TOBB Economy and Technology University, one of Turkey's leading academic institutions, to develop the curriculum, implement the training, and provide human resources support.

One of the advantages of SME Consultants is that it helps to develop a cadre of competent bank staff members that are deeply educated in business topics. After RMs complete the three phases of training, they gain two years of specialized training in business administration. RMs approved for the SME Consultants training program sign a two-year contract with TEB; this encourages retention of staff members that receive advanced training. Another benefit of SME Consultants is that it creates long-term commitment and satisfaction among bank employees. The average turnover ratio of SME consultants is lower than that of other bank employees. No other bank in Turkey offers this training program to its employees. To date, 300 TEB RMs, out of 550 SME-focused RMs, have completed training as SME Guides and SME Experts and are preparing to complete the training as SME Consultants. This cadre of RMs has prepared 800 company analysis reports and provided consulting services to hundreds of SME clients. The majority of TEB's branches have at least one SME Guide to offer this service to SME clients, providing wide coverage.

Expanding through Diverse Offerings

TEB offers a range of other support services. As with TEB SME Academy and TEB SME Consultants, the main scope of TEB's other offerings is to provide access to information and build SMEs' capacity for business planning and growth. TEB tries to reach SMEs using every available channel: telephone support lines, Web sites and videos, and discount clubs.

TEB's SME SUPPORT LINE

TEB's SME Support Line is a free and dedicated information phone line, which is available 24 hours every day of the week. SMEs can call this line to receive information about any business topic that is useful to their operations. In many cases, TEB Support Line staff can refer the callers to topic experts and get immediate answers to their questions. The line provides information services on many pertinent topics, such as tax and auditing, foreign trade, EU funds, leasing, and insurance. The line receives an average of 150 to 200 calls monthly.

TEB SME TV

TEB further helps SMEs gain immediate access to relevant information for their business through TEB SME TV, a business-oriented Internet television service that provides dynamic Web and video content through the Web site www.tebkobitv.com. TEB SME TV has more than 5,000 videos. The Web site provides the latest information related to the Turkish economy and global markets, including financial information, recent changes in legislation affecting SMEs, new trends in production and marketing, and a range of other relevant information. The Web site is accessible to all SMEs in Turkey. However, there are special features on the Web site that are available only to TEB SME TV members. For example, members can pose questions to well-known SME experts and receive responses in the form of TEB videos. Videos about taxes and incentives are most

popular with users. The Web site receives 20,000 hits on a daily basis, and TEB SME TV has more than 94,000 SME members.

TEB SME CLUB

TEB helps SMEs gain access to discounts and build purchasing power collectively through TEB SME Club. This is one of the largest business-to-business platforms for SMEs in Turkey, creating business relationships between SME consumers and large corporate suppliers. Through this membership-based loyalty club, SMEs receive discounts of up to 70% from companies that offer products popular with SMEs, such as UPS, Xerox, and Google. Only TEB clients can join TEB SME Club as members; the club presently has 15,500 SME members. A member pays US\$125 as an annual fee and can receive up to \$12,500 in corporate discounts.

Measuring Return on Investment

TEB management and staff are continuously learning from experience and using the learning to understand the impact TEB's non-financial services have on both SME clients and the bank. TEB closely monitors the cost of implementing non-financial services. The total annual cost, reflecting only management costs, to TEB is US\$1.6 million. TEB's management information systems have the capacity to track the outputs of each of its non-financial service activities, such as attendance for training events, number of monthly calls to the phone support line, number of Web site hits, membership levels, and so forth. Specific results associated with each service offering are also listed in Table 3 below. The highest-cost service, TEB SME TV, also generates the greatest scale in SME coverage.

Service	Outputs
TEB SME Academy	Since 2005, training in 32 cities has reached over 10,000 businesspeople, with an average of 300 participants per event.
TEB SME TV	More than 5,000 videos; 20,000 daily visits; over 94,000 members
SME Support Line	150 to 200 calls per month
TEB SME Club	Since 2009, 15,500 members and 45 business partners, resulting in over \$1,500,000 yearly transactions
TEB SME Consultants	180 SME Guides and 120 SME Experts trained and 800 company analyses conducted

While the cost of implementing a given service can be evaluated against the direct results it yields, such as number of participants, it is much more difficult to measure the return on investment in terms of bank profitability and SME delinquency risk. TEB does not have the capacity and information technology to measure which of the non-financial services have the greatest effect on improving SME clients' business practices and which ones offer the highest return

on investment for TEB. However, TEB is able to quantitatively measure the benefits associated with the provision of some of these services, as demonstrated in Table 4. In general the bank is confident that its SME non-financial services strategy helps grow its SME business, deepens its relationships with existing SME customers, and leads to new SME customer acquisition, and therefore it continues to invest in these non-financial services.

Benefits to TEB: Client Acquisition, Customer Loyalty, Cross-Selling, and Profitability

TEB's provision of non-financial services leads to acquisition of new clients and increased loyalty among existing clients. Also, the bank can bundle non-financial and financial products together and cross-sell products to existing customers. Table 4 highlights benefits to the bank that TEB SME staff associate with each of the non-financial service offerings. Wherever possible, benefits are quantified, though TEB does not have the capacity to quantify each benefit associated with its non-financial services.

One way TEB is able to measure the benefits of its services is by tracking attendance at TEB SME Academy and measuring client acquisition. As noted above, TEB's data show that 60% of attendees are clients and 40% are prospects. Of the 40% that are prospective clients, TEB is able to acquire 60% as clients, which translates to 72 new clients per event and 576 new clients on an annual basis, at a cost of about \$555 per new client. According to TEB, the revenue it generates from a new client is about three times higher than the cost of acquiring one through the SME Academy.

While TEB is able to calculate the financial profitability of TEB SME Academy, it has not yet developed the capacity to calculate the benefit-cost ratio of its other non-financial

Table 4: Benefits to TEB from Non-financial Service Activities

Service	Benefits to TEB
TEB SME Academy	<ul style="list-style-type: none"> • Supports new customer acquisition. Each training event has approximately 300 SME participants. 40% are prospects and TEB is able to gain business with 60% of the prospects, resulting in approximately 72 new clients per training event and 576 new clients per year (from 8 events per year). • Builds loyalty of existing clients. • Strengthens brand awareness and positive PR image for TEB.
TEB SME TV	<ul style="list-style-type: none"> • Supports new customer acquisition. SMEs that apply for SME TV membership are automatically directed to the nearest branch. The branch sales officer checks if the member is a bank customer, and if not, he/she contacts the member. • Strengthens TEB brand awareness. Has mass market reach with 20,000 daily Web site hits. • Sustains loyalty of current customers that use the Web site and become members (although it is not necessary to become a TEB customer to view the Web site and videos).
TEB SME Support Line	<ul style="list-style-type: none"> • Sustains loyalty of current customers. • Increases cross-sales to current customers through the opportunity to introduce specific products to callers.
TEB SME Club	<ul style="list-style-type: none"> • Supports new customer acquisition. Nearly 1,800 companies that were not TEB customers applied for SME Club membership. • Generates bank revenue. • Strengthens TEB brand awareness and PR image. Through coverage in 40 different news outlets, TEB reached an estimated 5 million individuals.
TEB SME Consultants	<ul style="list-style-type: none"> • Increases cross-sales to current customers. • Supports new customer acquisition through word-of-mouth advertising. • Reduces risk profile of current customers and lowers loan delinquency rates. • Sustains the loyalty of current customers. • Strengthens and diversifies expertise of TEB employees. • Increases employee loyalty through investment in training and incentives.

service offerings. This is due to the fact that some of its products, like TEB SME TV and TEB SME Support Line, are much more costly and difficult to track. Nevertheless, TEB management is confident that TEB's decision to focus aggressively on SMEs by developing innovative non-financial services to better serve them has yielded benefits to the bank. TEB's formal and informal market research reveals that SMEs associate positive brand recognition with TEB. Although TEB cannot provide evidence of direct causation, it is highly plausible that high-visibility and high-coverage activities such as TEB SME TV and TEB SME Academy have increased TEB's brand recognition and consequently the number of its SME clients. For example, as mentioned above, the number of the bank's SME clients increased from under 20,000 in 2005 to just over 700,000

in 2011, and TEB's SME loans as a share of total loans grew to 44% by 2011 from 25% in 2006. Moreover, TEB is the 10th-largest private bank in terms of asset size in Turkey, but it is the fifth-largest bank in terms of number of point-of-sale (POS) machines and volume of transactions. This suggests a high SME market share, because 95% of merchants (POS owners) are SME customers. However, TEB has not conducted impact measurement to be able to determine that it is non-financial service provision that is driving these changes, and not other factors such as the merger with BNP Paribas or market conditions. Similarly, the provision of non-financial services could be correlated with a decrease in SME delinquency loss and an increase in bank profitability per SME client during this time period.

Benefits to SME Clients: Feeling They Are Valued Bank Clients

Typically, banks take a wholesale approach to banking SMEs, focusing on high-volume transactions, minimal personal interaction, and standardized products. Though this approach creates efficiency gains for banks, it leaves the SME customers feeling that they are just an account number to their bank and that the bank does not take the time to develop a relationship and listen to their specific banking needs and preferences.

Unlike these other banks, which deliver standardized products and a uniform approach, TEB tailors its offerings to its clients. RMs spend individual time with SME customers to learn about their respective businesses and assess which of TEB's non-financial services could add the most value. SME Guides and SME Experts spend significant time with SME customers to conduct company analysis reports and diagnose the strengths and weaknesses of each company, thus gaining intimate knowledge of the SME owner and the workings of his or her business. TEB's approach builds trust with its clients and is responsive to SMEs' preference for personal contact with their bank.

Benefits to SME Clients: Improving Business Practices and Achieving Growth

TEB's non-financial services—training activities, personalized consultancy sessions, and multiple outlets for information sharing—help SMEs gain new skills and business knowledge to increase their productivity and income.

The story of Ibrahim Afyon, an egg producer, illustrates how TEB clients benefit from receiving non-financial services from the bank.

CLIENT SNAPSHOT

Many Turkish SMEs have difficulty exporting their products. Small manufacturing firms face a range of problems in entering markets beyond Turkey: meeting international product-quality standards and specifications; lacking sufficient market information about prices and consumer demand; being unfamiliar with trade regulations and customs issues; and lacking capital to finance increased production. Additionally, in many small firms, the SME owner is typically in charge of export activities, yet lacks international business experience and critical foreign-language skills.

One of TEB's SME clients, Mr. Ibrahim Afyon of Afyon Etas Poultry Company, was facing such challenges. Since childhood, Mr. Afyon helped his father with the family egg business and learned everything about egg production. When he inherited the egg production company in 1990, he helped grow the company and increase the number of chickens from 5,000 to 150,000, exponentially increasing the business's production capacity.

For many years, Mr. Afyon wanted to move his company to international sales, but lacked the business know-how and confidence. In 2009, he decided his company needed to export in order to survive financially. At the time, the Turkish domestic market was shrinking because of the global economic crisis, and his business sales were also shrinking. He turned to TEB SME Consultants to help him expand to international markets.

One of TEB's SME consultants visited Mr. Afyon's firm and conducted a diagnosis of the firm's foreign sales capacity, which included detailed international market research for the capitalization of its production in foreign markets. TEB's diagnosis suggested that the firm should begin exporting at a small scale to see if it could compete internationally. As a result, Afyon Etas Poultry sent its first container of eggs to Iraq as a trial. After initial success, Mr. Afyon began exporting on a larger scale and sold 20 containers of eggs. The company's annual export value is now approximately US\$2 million, and the profit on the trade is 43 percent. Currently, 20 percent of the company's production is for local markets and 80 percent is for export.

Looking to the future, Mr. Afyon wants to begin exporting regionally to new markets such as Azerbaijan and to become a larger integrated company. Feeling loyalty and trust toward TEB, he says he plans to continue working with TEB SME Consultants for advice as he expands his export production, and he will continue to use TEB financial products for all of his financing needs.

Conclusion and Looking Ahead

TEB has developed a highly successful and innovative range of non-financial services geared toward the SME market. One of the most compelling aspects of TEB's approach is how it has been able to successfully integrate the delivery of financial and non-financial services to SMEs. TEB's demand-driven approach to non-financial services has helped to differentiate the bank from its competitors and advance its position in a highly competitive market. By offering innovative and high-quality business development services TEB has significantly expanded its client base.

Looking ahead, TEB plans to continue to innovate by developing new non-financial service offerings and expanding the reach of existing ones. For example, TEB is considering designing business support services and counseling for start-up enterprises. According to the Turkish Ministry of Industry and Trade, 80% of newly established firms in Turkey close within five years. TEB wants to help start-up businesses be more successful and increase their chances of survival. As another example, TEB management also wants to build a set of non-financial services tailored to the needs of

agribusinesses and farmers. This represents an underbanked market segment, and there is opportunity to be a first mover in creating new banking services for the sector.

In order to maintain its competitive position, TEB is aware that it needs to continue to think innovatively and offer unique services that add value to both the bank and the SMEs it serves. In doing so, TEB hopes to continue to build on its position as a leading Turkish bank that not only sets the standard for non-financial services in Turkey, but also serves as a cutting-edge model for banks in other countries as well. Toward this end, TEB has successfully provided knowledge sharing and assistance to BNPP Algeria, which led to BNPP Algeria successfully implementing an adapted version of SME Academy in Algeria in 2007. As a result, BNPP Algeria has hosted 14 SME Academy training events since the program's launch and is planning seven events for 2011. Moving forward, TEB will help BNP Paribas to introduce SME Academy and other elements of its non-financial service offerings to European markets in Italy, Belgium, and France.

