Innovative Supply of Services Intended for S.M.Es Through Bank Branches

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Abstract

In Italy, the strong competitive environment has progressively reduced the credit intermediation role of banks. For Italian banks, SMEs represent the most important segment among the corporate ones and many ICT products / services suppliers are now giving great attention to SMEs, since the market of big companies tends to become saturated. In this context, there is the possibility to delivery new products and services to SMEs through the counters of a bank. These products and services already exist but are not usually offered by banks. The aim of the paper is to identify the portfolio is the most adequate for the SMEs demand and the bank delivery, in the Italian environment. Furthermore, the paper considers the portfolio segmentation and it estimates the accessible market and the project revenues on the basis of some estimation models.

1 - Introduction

The reorganization per division of the principal Italian and European banks has started a period of profound changes. The client subdivision in private, retail and corporate is now a daily effectiveness of many banks. At the moment the challenge is to determine which sub-sector of the single division can guarantee the greatest profitability and added value. Inside the corporate division the small and medium enterprises, for sure, are a crucial target for Italian banks. For instance, the 55% of the corporate investments of Unicredito, one of the biggest Italian banks, regards SMEs and this produces the 70.4% of the revenues (Colombo, 2003). Furthermore the keen competition has reduced the bank loan contribution margin not only for big companies, but also for SMEs and made development of customer loyalty and innovation to be a key issue.

Also from the point of view of ICT (Information and Communication Technology) producers, small and medium enterprises have become a central target for many goods because of

the saturation of markets related to big companies. Moreover, it's superfluous to remember the importance of SME in the Italian economy. About four millions of small and medium firms produce about the 70% of the total Italian added value and only nearly 4,000 companies, with more than 250 employees, generate the remaining 30%.

In this context, the idea of delivering to SMEs, some not banking services and products through the counters network of a bank has recently started. These not traditional bank services and products may be of various kinds. One of objectives of this study is to identify the services and products more suitable to the project. The bank should act as distribution channel and handle the relation with the customer. Products should be supplied by some partnerships with the greatest producers.

The project is complex and enrols principally three actors: a bank, the small and medium enterprises and the suppliers. The main advantages and opportunities of the bank may be:

- customer loyalty development;

- to become the principal bank;

- cross selling over typical financial products;

- to improve client knowledge;

- possibility of lock-in/exit barriers for SMEs with some information products.

On the other hand, in this period a lot of producers, principally ICT, are, in this period, interested in SME's market and they usually have not a distribution channel so widespread as a bank. The principal advantages of suppliers may be:

- sales increase by a larger distribution;

- financial synergies: ICT products will be sold together with financial products. This implies a differentiation from their competitors;

- their products will be sold with the ones of the best companies of different industries. This also may imply a differentiation from competitors.

The world of Italian SMEs is very complex. Their needs change a lot from industry to industry and depend remarkably on the enterprise dimension. Since the not financial products delivered by banks are not known a priori, it is difficult to single out the SME probable advantages. However they may be:

- economic advantage by means of direct or indirect discounts;

- time saving in terms of offer simplification and competitive advantage especially for information services;

-   the relation with the bank is continuative and so probably less risky;

-   a best relationship may imply, in the medium and long term, a more easy access to loans for their future investments.

For the moment, the advantages of the three actors are a hypothesis. They depend on the chosen products and services, on their correspondence to general economic context, on the SME needs, on the level of competitiveness of that industry and on the implementation / operating plan. Furthermore, it is important to estimate the probable bank revenues in order to decide on the project feasibility. The objectives of this study are the following:

-   to determine which services/products could be more suitable;

-   to individualise an opportune segmentation for the chosen portfolio;

-   to estimate the project revenues;

-   to analyse the project costs and benefits.

The Italian SMEs, clients of the considered bank, are the target of the project. An average SME has relations with about 5-6 banks and principal banks have as clients about all Italian SMEs with 6-200 employees. In the revenue estimation, the enterprises in the range 1-5 employees have been not considered because their expense for services is very low. Furthermore, their number reaches about 3.5 million units, so the ratio between expense and number is not favourable. Enterprises in the range 200–250 employees have been not considered, too. They probably have already the possibility to take on the main services and products by other channels because of their considerable dimension.

Section 2 examines the literature to date and the method used to pursue the objectives. Section 3 illustrates the main data and elements found in the research areas (supply, demand, principal markets and internal bank analysis). These data will be used in the last sections. Section 4 considers portfolio choice to achieve the best results considering both short and medium period. Section 5 presents the customers segmentation in order to better estimate the accessible market and bank revenues (section 6). The paper concludes in section 7.

2 – Literature and method

The problems related to the objectives are large and massive. The project is relatively new and there are not many literatures directly on the subject. Instead there is a considerable quantity of writings and material about related arguments like bank strategy and SME service demand. In UK, since the end of nineties there was consciousness of benefits of a good relationship between bank and the SME client and of the strong positive connection between relationship and the

perceptions SMEs have of their banks (Binks and Ennew, 1997). Bornheim and Herbeck's paper (1998) argues for a theoretical model helping the comprehension of the cost and benefits incurred with a relationship between SMEs and a bank. In the years later Howorth et al. (2003) singled out strong evidence that the main drivers of the UK SMEs decision to switch or consider switching their banks were the service provided and the difficulties in obtaining finance. For Italian SMEs, Bianchi and Noci (1998) highlighted there was a strong necessity to improve SMEs competitiveness and that they tended to comply with external pressure rather than anticipate environment change.

Various papers were written on the link between competitiveness and ICT. The greater part of these studies identified digital technologies as a principal cause of the US productivity increase in the middle of nineties: both directly, in the same ICT industry, and indirectly, in other industries where the new technologies were utilized (Jorgenson and Stiroh, 2000; Oliner and Sichel, 2000; Bassanini et al., 2000). Other studies are inclined to consider as significant only the direct effects (Gordon, 2000). Recently Morikawa (2004) investigated the role of information technology investment on the performance of Japanese firms finding there is a positive significant relationship between IT (Information Technology) and small firm profitability and innovation. Lucchetti and Sterlacchini (2004) studied the main drivers of ICT adoption for Italian SMEs and Brunetti et al. (2002) for the Lombard and Venetian industrial zones.

Relation between ICT and Italian SME competitiveness is one of the involved questions. For sure the study cannot leave this aspect out of consideration but the project starts from the bank customer retention need and will be implemented by the bank itself. Hence, in the portfolio choose, the SME competitiveness cannot be the only target of the study. In order to handle the complexity the following research areas are chosen:

- Bank's point of view;

- Principal services/products markets for Italian SMEs;

- Competitors and best practise;

- SMEs demand.

For data, the GRNT (2003), Assinform (2003), ISTAT (2004), Italian Energy Authority (2003), Censis (2003) and Confndustria (2003) sources were principally used.

3 – Principal elements found in the research

The first area is dedicated to the bank internal needs and to the project SWOT. The second area considers principal markets in order to gather information about dimension, delivery possibility

through the banks counters and growth rate. The third area examines the principal associations delivering service and products to Italian SMEs and particularly other banks with existing similar projects. The forth area analyses the product and service demand of SMEs.

3.1 – *Bank's point of view*

SMEs represent the most important sub sector in the corporate segment. For example, in one of the biggest Italian banks, the percentage rate between returns and investment is 5.2% for SMEs, 3.2% for public sector, 2.8% for enterprises with sales greater than 50 million euro and 1.8% for the first 42 groups. Furthermore corporate segment has lost ground respect to private and retail segment. In this context of increasing competitiveness the innovation and the development of SME loyalty is become a crucial issue in the bank strategy. Actually the 70% of European bank managers believes that the development of customer loyalty will be a key success factor in the next years (Colombo, 2003).

In this project a bank has as strength a very good delivery network (about three thousand counters in Italy for the biggest banks), the possibility to sell new services and products with its financial ones and a good knowledge of small and medium Italian enterprises. For sure a bank cannot personalize new products and services: it has not the competence and the skill required. This is a big limitation / weakness, in fact the bank can act substantially only as distribution channel. Products and services would have to be standard with large markets so that a large number of enterprises can be reached.

On the contrary a lot of products and services, required by SMEs, have to be installed / customised considering the particular needs of the single small and medium enterprise (its industry, organization and strategy). Hence the principal threat is to supply products and service not targeted on SME needs or not perceived as an added value. On the other hand, the project can be an opportunity of customer loyalty development, cross selling over financial products and of entering the SME productive cycle with some exit-barrier possibility. The challenge is to well choose the portfolio components in order to achieve a fruitful compromise between bank and SME needs also considering the other competitors.

3.2 – *Principal Italian markets*

This research area was important as initial start up base for generating potential products / services and for gathering data (about market volume, growth rate and segmentation) used in market and revenue estimation (section 6). We considered Italian energy and ICT markets with

all principal subs – sector: electricity, gas, mobile and fixed telecommunication, internet access, apparatus/services information technology and a lot of application as marketplace, e-commerce, e-learning, CRM (Customer Relationship Management), SCM (Supply Chain Management), ASP (Application Service Provider), digital security and other applications. The research criteria were mainly about the following elements:

- distribution possibility through the bank network;

- market dimension;

- market growth.

The first criterion is a necessary condition and refers to the low bank possibility to customise new products: so they have to be standard in the installation / implementation and easy to be maintained. The second criterion refers to possible bank revenues. For a bank it is important to access a large market in order to generate a discrete amount of revenues to cover partially the implementation and maintenance costs. For example, for making 200.000 euro of revenues with a penetration rate of about 2% and a margin on the captured turnover of about 4% the accessible market (relative to SMEs in the segment of 6-200 employees) have to be about 250 million euro and the total market (all enterprises) not distant from 700 / 800 million euro. These figures are just an indication but they can help to form an idea of why a lot of markets, in Italy, like digital security, CRM, SCM, marketplace and ASP are not so interesting for what concerns the revenue possibility. For example in the 2002, the Italian digital security total market was of 399.3 million euro, the CRM of 517.2, the SCM of 313 and the ASP of 8.21 million euro (Assinform, 2003). Furthermore, inside these markets there are a lot of valuable services not easy to implement by a bank like consulting ones: 192 million euro for SCM and 352.1 million euro for CRM (Assinform, 2003). Hence, the sales volume is low to permit some kind of appreciable revenues even if these products / services have low implementation and maintenance costs.

The market growth criterion takes into consideration the growth hopes for the future. There are a lot of services having small market but very high growth rate. Italian SMEs may regard these services as interesting because they are potentially innovative and aimed to increase the enterprise competitiveness. SME competitiveness needs are a crucial issue for the portfolio choice as described in section 3.4.

The research has been done using various sources. For dimension, the principal markets are for sure the energy and telephony ones. Italian energy market, gas and electricity, was in the 2002 about 60 thousand million euro (GRNT, 2002; Italian Energy Authority, 2003). In Italy moreover, this market is very interesting for the liberalization sanctioned by law in the 1999 for electricity and in the 2000 for gas. The telephony is principally divided into fixed / mobile and service / equipment. The mobile services in the 2002 invoiced 14240 million euro and fixed ones

10515 million euro (Assinform, 2003). Certainly, energy and telephony markets are the biggest ones and the related services are standard and easy to be delivered. Internet sales are valuable and its solutions standard. In the 2002, the total market reached almost the 3 thousand million euro considering data traffic and Internet access (Assinform, 2003). Furthermore, its growth is very high: about 18% from 2001 to 2002.

The Italian information technology market is a very big (about 20 thousand million euro, 2002) but it is fragmented into dozens of solutions sometimes not easy to be implemented sometimes with small sales. Among those ones with fairly good market and standard solutions it is possible to find ERP (Enterprise Resource Planning) and office automation. For both, Italian market is about 1 thousand million euro and the ERP is expected to have a 15% increase among small and medium enterprises (Censis, 2003). Information technology has numerous applications with high growth rate in the sales. For example from 2001 to 2002, e-learning market grew from 28 to 43 million euro with a 56.6% growth rate (Assinform, 2003). For e-commerce it is also foreseen a growth in the diffusion from 16.5% to 33.9% in the period 2002 / 2004 (Assinform, 2003).

Furthermore, although these markets are small for gross sales they are not so small for what concerns the number of involved enterprises. In fact in the 2002, there were about 17,000 Italian SMEs utilizing e-learning applications and about 18,000 using e-commerce ones (Assinform, 2003 and ISTAT, 2004). The number related to e-commerce is significant for SMEs. In fact in this market, the network externality and the critical mass effects are important while the employee number does not seem to be so decisive (Bonaccorsi and Rossi, 2002). Hence, e-learning and e-commerce may play a role in the project, it must be verified they are perceived by Italian SME as a response to their needs and an added value to their activities (section 3.4).

Where not specified otherwise, the given sales figures are referred to all the sales (also consumer) not only to enterprises with 6-200 employees. The shares related to this segment will be considered in section 6.

3.3 – *Competitors and best practice*

The supply of products and services to Italian small and medium enterprises is huge. The following categories of suppliers were mainly considered:

- Banks.

- SME associations.

- Italian "Camere di Commercio" and BICs (Business Innovation Centres).

Three banks were implementing a similar project in the 2003: Unicredito, Monte Paschi di Siena and San Paolo IMI. Unicredito established a firm called Unicredit Servicelab. Its Mission is *".. to support the client enterprise in the research and purchase of solution to improve the management of non strategic processes.. "*. Servicelab has also a portal with information to help the SMEs in strategic decisions. The solutions supplied by Servicelab were: electric energy purchase, energetic conservation, Marketplace, research and selection of human resources, personnel administration, training, environmental services, facility management and hardware leasing (Servicelab's website, July 2003). In the website of Servicelab a lot of services are presented as highly customised (designing, engineering and feasibility studies).

Monte Paschi of Siena created MPSnet in the 2001 to deliver digital services and products to small and medium enterprises, public administration and professional men. The project directed to SMEs is called "Opifici Digitali" and it includes a lot of online, digital services as: marketplace, e-commerce, web casting, video streaming, web site, e-learning, marketing – CRM services, internet security, purchase services and sales force automation (from official site http://www.opificidigitali.it, July 2003). These services are delivered online or using application service providers. As well SanPaolo IMI supplies administration and financial services, partner research and commercial information about Italy and foreign countries using the web.

Fig.1 - Positioning of SME suppliers.

		Customisation	
		Low	High
Market Size	High	(2)	(1 quad.) Servicelab
	Low	(3) Opifici Digitali San Paolo IMI	(4) Associations, BIC, Camere Commercio

The principal Italian associations were also considered: Confcommercio, Confindustria, Confartiganato, Confesercenti, CNA and Confapi. The services delivered are principally about ICT solutions, technical and business information, training, support to innovation, outsourcing and financial assistance. These services are generally personalised considering the enterprise needs. They have also standard products and services given using agreements with leader companies. For example, all the associations have partnerships with fixed and mobile communication companies (TIM, Vodafone, Telecom, Albacom); Confindustria, CNA and Confesercenti have agreements with banks (Intesa BCI, MPS, Sanpaolo IMI); There are also a lot

of partnerships for products and services like software – hardware (IBM, Microsoft, Simantec), care rental, hotels and ticket restaurants. The services supplied by "Camere di Commercio" and BICs are aimed principally to help the economic development and the competitiveness of SMEs. They are principally related to technological innovation, training and internationalisation. In Fig. 1, the different suppliers are positioned respect to customisation and market size.

The customisation is often an index of the implementation and maintenance costs. In the first quarter you can find suppliers with high-personalized offer, targeting big markets. In the second quarter the customisation is low and the offer involves probably a larger number of enterprises respect to the first one. In the third and fourth quarter the dimension of the targeted markets are low, but in the third one the number of involved enterprise may be not scarce because of the possibility to offer standard digital solution at a low price. This can be the case of products and services related to digital information / learning solutions with little markets but a good number of interested enterprises. Some of these applications have a high growth rate and may be regarded also as a potential increase of competitiveness by Italian SMEs. Considering this point of view and that the project is aimed to develop the customer loyalty, it is important the number of the involved enterprises and the perceived added value are fair. The suppliers positioning in Fig. 1 is mainly and is been made considering the offers as an all. For example the Italian associations have partnership to supply standard products with big market dimension, but the effort and aim are to give services fitted to the enterprises needs at least differentiating the offer according to the different industries.

3.4 – *SMEs demand*

A complex aspect of the project is to determine who are the small enterprises in Italy and what services and products they are searching. In Italy, there are about 4 million enterprises (Table 1), the number of employees per firm about 4 and the 91.1% of the enterprises has less than 6 employees. In Table 2 SME percentages are reported divided into the different industries.

Table 1 - Enterprises per number of employees, year 2000.

	Number	%
From 1 to 5	3,696,881	91.1
From 6 to 9	174,000	4.3
From 10 to 49	166,000	4.1
From 50 to 199	17,000	0.4
>=200	4,038	0.1
Total	4,057,919	100

Table 2 - Italian enterprises and employee's percentage per activities (Unioncamere, 2000)

	Enterprises (%)	Employees (%)
Estate activities, rent, data processing, research and other activities	18.97	11.29
Wholesale and retail trade	34.86	21.6
Hotels and restaurants	6.02	5.25
Freight, storage and transport	4.43	7.9
Financial brokerage	1.79	4.06
Others public social and personal services	5.59	3.21
Mining	0.12	0.28
Manufacturing activities	15.65	35.43
Constructions	12.53	9.8
Electricity gas and water production and distribution	0.06	1.18
Total	100	100

For many years, this industrial model guaranteed prosperity to Italy with his flexibility. At the present, there are a lot of crisis signs. In the nineties the Italian economy is grown with an average rate of 1.4% less than the half of the previous decade: the worst result of post-war period. Furthermore, Italy decreased the exportation quota on the worldwide export, with constant prises, from 4.5% in 1995 to 3.5% in 2002 (ISTAT, 2004). In the same period, Germany increased its export of more than one point arriving at the 11.3%.

SMEs are particularly impacted by this loss of competitiveness. In the 2000, the value added per employee in the firms with more than 250 employees was about 2.2 times greater than the value added in the enterprises with 1-9 employees. In the same year, the exportation per employee in the first class was 2.3 time superior respect to second one (elaboration from ISTAT, 2004; EUROSTAT, 2004).

To face the danger the Italian SMEs have used principally four strategies:

- moving the production towards area with lower labour cost;

- cooperating with other enterprises (industrial zones);

- creating process and product innovation (with or without R&D investment);

- using ICT technology to reduce costs.

The first point is thwarted by the low financial possibility of SMEs (they are often highly indebted toward banks). The third point is hampered by the really modest percentage of investment in R&D: in the 2000 it was 1.1% of Italian GDP respect to 2.0%, 2.5% and 3.3% of France Germany and Finland respectively (Confindustria, 2003). For these reasons, a strong adoption of ICT products has been expected and wished for in order to increase SME competitiveness.

Actually the bound between ICT adoption and the increase of competitiveness is not a straightforward consequence. There are various studies attesting that the growth of United States productivity in the nineties was, directly or indirectly, due digital technologies (Jorgensen and Stiroh, 2000; Oliner and Sichel, 2000). However, the economic and social environment is important and truly different between United States and Italy. It seems the Italian economic system is less inclined to generate and adsorb technological innovation because of a low level of real competition, a scarce amount of investment in R&D and a not encouraging regulation (Rossi, 2003). In this context, the products and services really requested by Italian SMEs are principally in the following areas (Unioncamere, 2000):

- process and product innovation brokerage;

- network creation of enterprises for tenders and purchase groups;

- e-commerce services;

- information about foreign markets, incentives for new enterprises creation;

- new commodity research;

- new customer finding.

The tendency to invest in IT projects is extremely dependent on the dimension of the enterprise. In the 2002, the investments were 3,805 million euro for the class 1-50 employees while 4,650 for the class with more than 50 employees. Hence, the 0.5% of the largest enterprises invests in IT projects about the 55% of the total. On the other hand, the investment per employee is about 2.8 times greater in the first class respect to the second one (Assinform, 2003).

The tendency to efficiency projects or to business development projects depends on the period. In the 2001 the declared SME targets of IT projects were for the 25.8% the business development and only for the 8.7% the increase of efficiency. In 2003 the percentages were inverted with a clear predominance of efficiency. In the last months the atmosphere seems to be changed again. Italian SMEs are again awaited in introducing ICT solutions not only to reduce some costs but also to increase their competitiveness. This aim implies to adapt and customize the ICT solutions to the business and organizational operability of the single enterprise. This adaptation generally requires a consulting work that cannot be done by a bank and it is not in line with the project feasibility. On the other hand, it cannot be omitted that the competitiveness increase is one of the most felt need of Italian SMEs.

The purpose of the work is not to be exhaustive or complete on themes like SMEs competitiveness or Italian economic policy because of their complexity. But the choice of the products and the services cannot ignore the economic environment and the atmosphere where they will be marketed.

4 – Portfolio

Considering the elements found in the research phase (section 3) the foundation / short term products and services are chosen:

- electricity and gas buying;

- mobile and fixed telephony;

- xDSL (all types of Digital Subscriber Lines internet access).

- standard office automation solution;

- standard ERP solution.

    The medium / long term products and services are also chosen:

- e – learning (standard courses with large interest among Italian SMEs);

- information about internationalisation, technological innovation and incentives.

- e – commerce, only very simple solutions configurable by SMEs.

    The first group is composed by services with large and stable markets. They guarantee the project revenues, they are standard and there is no special need of customisation. Hence, the delivering can be easy also for a not specialized distributor as a bank. The number of possible contacts is high.

    These products/services are prevalently oriented to satisfy the efficiency needs of Italian SMEs rather than the competitiveness ones. That is mainly true for energy and telephony markets less valid for xDSL, office automation and ERP because they are substantially a hybrid between the two groups.

    Medium/long - term group contains products and services generating negligible revenues. The relative markets are small but the growth rate is high and the potential number of contacts is not as low as the market dimension could make to think (section 3.2). Information, e-learning and e-commerce are more linked to the competitiveness needs of Italian SMEs than to the costs reduction needs and they can be also implemented in a not onerous way.

    If used for a long time, these products can generate in SMEs a sort of lock in/exit barrier phenomenon and help to change the not so good perception that Italian SMEs have of their banks. In the future the collaboration between Italian SMEs, banks and also universities will be more and more important. The banks that will take the point of view of developing SMEs competitiveness will probably obtain a dominant position in the corporate segment.

Considering Fig. 1, this portfolio takes its place in the second and third quarter. The short - term group is more oriented in the second quarter (low customisation and large market size), while the medium / long - term group is mainly positioned in the third quarter (low customisation and low market size).

5 – Segmentation

The Italian enterprises are segmented into homogenous clusters in order to better estimate the accessible market and the possible revenues. Only short-term portfolio is considered in the estimation because of the negligible market size of medium / long – term portfolio (section 3.2).

The segmentation variables, generally used for the single product, are several and not easily reducible to a few. For example, the number of employees is used in fixed communications while the number of desktops is preferred for office automation (consumptions in m^3 and in kwh are considered for gas and electricity).

On the other hand the bank has necessity to use segmentation variables easily available for the single client firm. Furthermore, it would be opportune to use the same segmentation variables for all the products so that one enterprise belongs to only one cluster and not to six – seven clusters (one per product). Using one variable per product implies also to have a lot of clusters complicating the determination of estimation model parameters.

The number of employees can be a decisive variable in all the markets. For example investments in ICT products are extremely dependent on the dimension of the enterprise, as seen in section 3.4. The activity sector is important in the propension of Italian SMEs to buy ICT and energy products.

In the 2002, the xDSL adoption was 14.2% in the industry while in the services it was 37.4% (Assinform, 2003). Besides, the gas and electricity consumption differs enormously from services to manufactories. On the other hand, there is a considerable dependency of the IT expenditure on the geographical dislocation. In the 2002, the one-year IT expense per employ was 1,053 euro in Lombardia against 302 euro of Sardegna (the average enterprises dimension is lower in the last one region).

The article of Nascia et al. (2002) reports a lot of data regarding the ICT product adoption in Italy divided by enterprises dimension, sector and geographical area. The authors, calculating the Gini concentration index for the three variables, conclude the number of employees and the activity sector are the most important segmentation dimensions. A detailed analysis would require homogenous data indicating the expenses for every portfolio products together with all the possible explicative variable of such expenses (Giudici, 2001).

In conclusion, the following components have been valued for the segmentation choice:

- variables more affecting the expenses in all the portfolio products;

- reasonable level of clusters to not complicate too much the determination of the estimation model parameters;

- data availability in the bank environment;

- robustness of the choice in the case of portfolio change.

Considering these elements the segmentation in Table 3 is chosen.

Table 3 - Segmentation: number of Italian enterprises per sector and number of employees, estimation on data of ISTAT (2004)

	6-9	10-49	50-199	Total
Industry	127,000	131,500	14,800	273,300
Services	47,000	34,500	2,200	83,700
Total	174,000	166,000	17,000	357,000

In the next section the market size of every short – term product for enterprises with 6-200 employees is estimated (Table 4). Furthermore, the average expense per enterprises in each segment for all the considered markets is reported (Table 5). Table 5 shows there are big differences between the six segments expenses. Fixing a product, it would thinkable to group together two segments: for example in the electricity and gas markets the 10 – 49 employees of industry segment and the 50 – 199 employees of service have similar expenses per enterprise. However the same segments differ very much in the markets related to telephony, office and xDSL. It is not possible to reduce the six segments to five (the same for all products) without loosing sensitively accuracy in the segmentation.

6 – Accessible market revenues

The enterprises with 6 – 200 employees are considered because they result the segment more interesting for the project. The sales to that segment represent also the accessible market supposing all the enterprises are clients of the defined bank and reachable using its counters. For the biggest Italian banks, these considerations are very near to the reality because an average

Italian enterprise has usually 5 or 6 banks and there are more than 3000 bank counters distributed in all the territory for each of biggest banks. However these assumptions are not binding for the model and are made only to not fasten the estimation to a particular bank.

The estimation of the accessible market is made only for the products composing the short – term portfolio. The considered products are: gas, electricity, mobile and fixed telephony, xDSL, office automation and ERP. For each market, these points are followed to estimate the accessible market and the revenues:

a) determining the Italian sales referred to enterprises with 6 – 200 employees;

b) estimation of the part related to the six segments of Table 3;

c) attribution of penetration percentages for each segment and product;

d) revenues estimation (two scenarios: 3% and 5% of profit margin).

For point a), data from GRNT (2003), Italian energy Authority (2003), Assinform (2003) and ISTAT (2004) are prevalently used. Combining the various sources, the determination of the global market and of the part referred to enterprises with 6-200 employees does not present important approximations although it depends on specific market.

For point b), the data to determine the sales quota related to the six segments of Table 3 are not usually sufficient. The sales to enterprises with 6 – 200 employees are fist divided in the mentioned three dimensional segments using the number of employees and the IT expense of the considered segment as repartition base. First base is used for energy, telephony and xDSL markets the second one for ERP and Office automation. Then each of the tree dimensional segments is divided into industry and services. The repartition is performed using benchmarking ratios between industry and services expenses in each market (for example the ratio related to electricity market is taken from GRNT site http://www.grtn.it/, for the ERP, Office and Internet we used data from Capitalia, 2002; Netconsulting, 2003; Assinform and Federcomin, 2002). This subdivision is made mainly for three reasons:

- a product choice the nearest to the principal segments;

- a more precise estimation of the penetration percentage the bank could attain;

- a communication oriented to the more interesting segment.

The results of the accessible market estimation are reported in Table 4 (year 2002) divided among the segment of Table 3.[1] The principal segment is always referred to the enterprises with

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[1] For the estimation of the possible turnover are used prevalently data of years 2003 and 2002. This does not influence much the results because the principal markets (energy and telephony) are stable and the growing ones represent only about the 9% of the total.

10 – 49 employees (industry plus services) while it depends on the product which of the two sectors is predominant on the other.

In Table 5, the average expense per enterprise obtained as ratio between the accessible market and the enterprises number per segment is reported. As said in section 5, these data can be important to judge approximately the quality of the segmentation.

Table 4 - Accessible market estimation divided among the six segments in mln € (year 2002).

	Electricity	Gas	Fixed tel.	Mobile tel.	xDSL	ERP	Office
6-9 Ind.	1.249	828	190	135	20	21	21
10-49 Ind.	3.244	2.160	571	416	99	223	143
50-199 Ind.	1.698	1.136	362	274	85	97	80
6-9 Serv.	92	77	213	200	58	2	39
10-49 Serv.	170	142	454	436	207	15	187
50-199 Serv.	50	42	163	163	101	4	60
Total	**6503**	**4385**	**1953**	**1624**	**570**	**362**	**530**

Table 5 - Average expense per enterprise and segment in 10^3 € (year 2002).

	Electricity	Gas	Fixed tel.	Mobile tel.	xDSL	ERP	Office
6-9 Ind.	9.8	6.5	1.5	1.1	0.2	0.2	0.2
10-49 Ind.	24.7	16.4	4.3	3.2	0.8	1.7	1.1
50-199 Ind.	114.7	76.8	24.5	18.5	5.7	6.6	5.4
6-9 Serv.	2.0	1.6	4.5	4.3	1.2	0.0	0.8
10-49 Serv.	4.9	4.1	13.2	12.6	6.0	0.4	5.4
50-199 Serv.	22.7	19.1	74.1	74.1	45.9	1.8	27.3

For the determination of the penetration percentage (point c), values from 0 to 3% have been chosen in the six segments of each product.

The highest values were mainly set for the segment with the largest market because the product choice will be probably made to be the closest possible to the needs of that segment.

Furthermore, the segments with 10 – 49 employees are considered to be the ones with the greatest penetration percentage. In fact, the dimensional class 6-9 employees is formed by enterprises too small to be interested in the portfolio products and with an expense possibility very contained.

On the other hand, the class 50-199 employees contains enterprises with important customization needs and often able to address directly the product suppliers. The penetration percentages obtained as weighed average of the six values chosen for the six segments are reported, product-by-product, in the fourth column of Table 6.

Table 6 – Turnover and enterprises estimation the bank could capture per year (data of 2002).

	Turnover captured by the bank (mln €)	Involved enterprise (thousands)	Expense per enterprise (10^3 €)	Penetration (turnover / acces. Market, %)	Percentage of the total turnover
Electricity	175.4	7.3	24.0	2.7	46.3
Gas	105.9	7.1	14.8	2.4	27.9
Fixed tel.	29.2	5.1	5.8	1.5	7.7
Mobile tel.	34.7	6.5	5.3	2.1	9.2
XDSL	10.6	2.1	5.0	1.9	2.8
ERP	10.2	7.8	1.3	2.8	2.7
Office	12.9	6.2	2.1	2.4	3.4
Total	**379.0**	-	-	**2.4**	-

The turnover captured by the bank could be about 379 million euro per year with a total penetration percentage of 2.4%, calculated as turnover over accessible market (Table 6). From the same table it is possible to see the principal markets are the energy ones: the electricity reaches about the 46% of the total turnover while the gas takes the 28%. The other markets are abundantly under these values and take shares about from 3%, for ERP, xDSL and office, to 9% of mobile telephony.

For the determination of the revenues (point d), two scenarios are assumed: one with an average profit margin obtained from the suppliers of 3%, the other with a profit margin of 5%. With these hypotheses the revenues of the bank fluctuate from 11.4 to 19.0 million euro per year (see Table 7). In the project business the bank offers substantially only the distribution channel, some added knowledge about the client and some possibility of financial synergy. The real scenario will probably tend to be closer to the worst one (also for a prudential valuation). Assuming the probability of the first scenario to be 60% the probable bank revenue is about 14.4 million euro per year.[4]

Table 7 - Revenue estimation (mln euro).

	Scenario with 3% of margin	Scenario with 5% of margin
Revenue	11.4	19.0
Probability	60%	40%
Prob. Revenue	14.4	

It is superfluous to say that the estimations of the accessible market and the revenues are approximated, but the used models were gauged and validated with a lot of crossed data. However, they give an optimal indication of the order of revenue magnitude and are certainly good for strategic valuations and decisions.

7 – Conclusion

As seen in the last section the order of magnitude of the project revenues is around 15 million euro. The selected products are not expensive in the implementation and maintenance phase because of their standardization. Hence, the project costs should not be so high. However the ratio between the revenues and the involved enterprises shows the main project aim is not the direct economic reward in the short time. For sure, the revenues can cover a significant part of the project costs but the principal aims remain bounded to the medium long-term period.

The project has a good alignment with the general Italian context. A lot of suppliers may have the interest to participate in the project in order to upgrade their networks and to boost their sell capacity. This is due to the saturation of a lot of ICT markets for what concern big companies and hence to the necessity of having a capillary distribution networks to reach Italian SMEs. Furthermore, the increasing competition in the bank environment makes the development of customer loyalty and the innovation to be key issue. In addition to the cross selling over the classic financial products, the bank has the possibility to improve its knowledge of Italian SMEs and to change their perception of its role. At the moment, Italian SMEs perceive the bank as a kind of parasite and not as a business enabler. In the perspective of Basil 2 and more in general considering that the economic environments is changing more and more quickly, it will be increasingly important to reinforce the collaboration between SMEs, banks and also universities in order to upgrade the innovation capability of Italian productive system. This is a crucial element considering that Italian economy is loosing ground in terms of competitiveness respect to other countries and that SMEs are the principal asset of Italian production. The project tends to move the attention from the loan, always seen as a debt, to a possible solution with an associated loan.

The short period portfolio products are aimed mainly to finance the project and to increase its visibility. In the future, others products will replace them because of their profit margin decrease. However, they are also initially necessary to seep into the bank environment without showing only costs. The medium long – term period products are instead probably destined to reinforce their position and to increase their number.

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