

Sharing or commoditisation, trends in finance

Annegien Blokpoel



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Trend watching

- Finance = Money is becoming a commodity
- The first signals are there
- This has major implications
- And opportunities for new players

My personal observations; performance in the past is no guarantee for future success!

Premium versus commodity

- Premium good is thought after and feels like quality
- A premium good can demand a premium price
- A premium good can attract more customers
- A premium good has loyal customers
- A premium good is a virtual position in your brain!!!
- Commodity good is nothing special
- Standard, basic and lots of it
- Price of commodity good is a function of $D = S$
- Heavy competition
- Clients not loyal
- A commodity good is a no brainer!

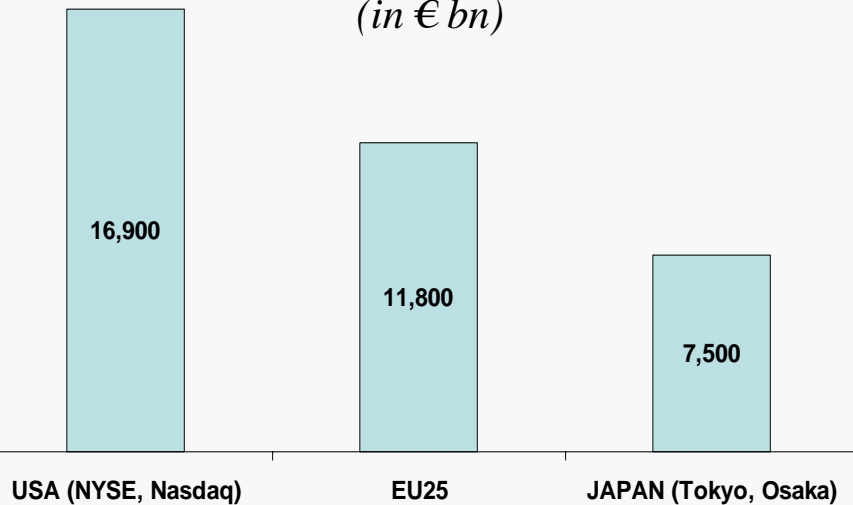
Lets have a look at the capital markets



Equity markets; a quick overview

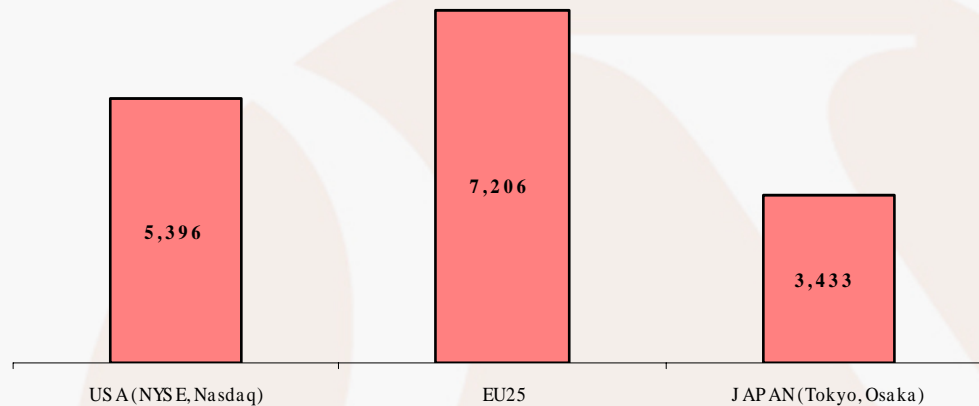
Market Capitalization

(in € bn)



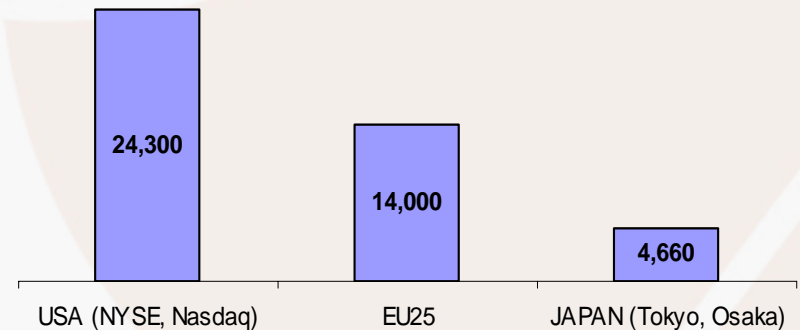
Source: FIBV, Sept. 2006

Listed Companies



Value of Share Trading

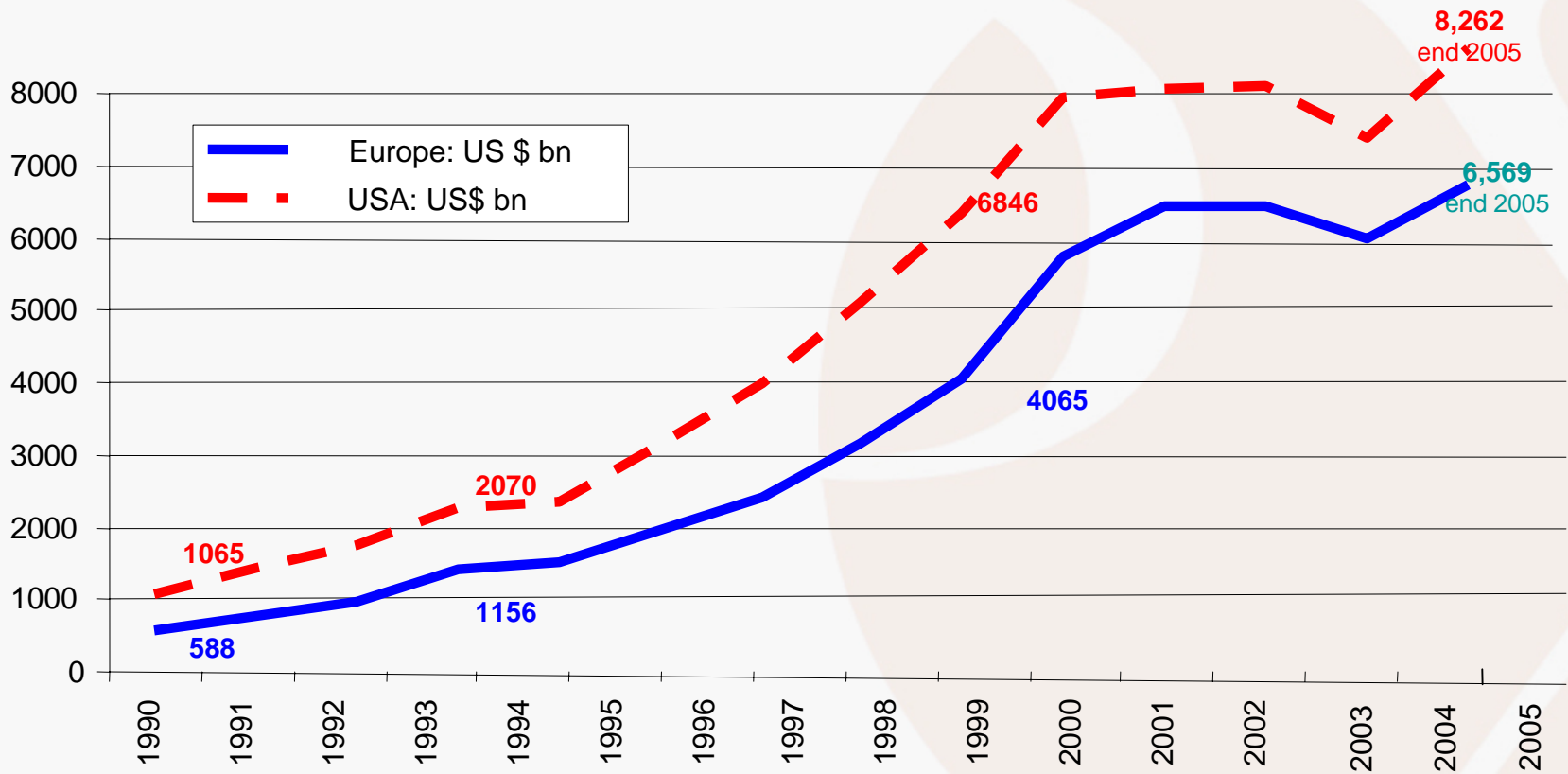
(Year to date, in € bn)



Source: FIBV, Sept. 2006

European asset management industry

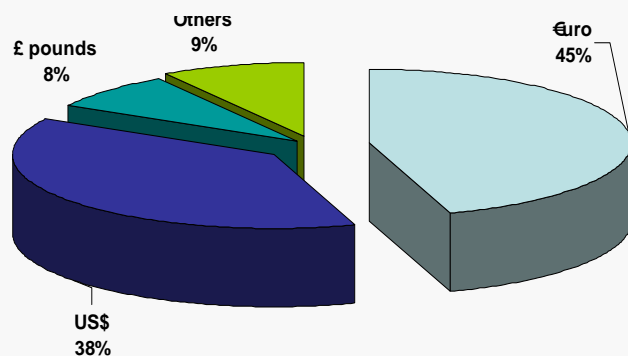
Investment funds industry has multiplied by 10 between 1990 and 2006



Source: BIS

The bond market

International Bond Market (in €bn and in % of total issues)



Source: BIS, 2005

Top 40 International Issuers of Euro-denominated Bonds

Issuer (total amount issued in period under review, EUR millions)

HSBC	(8,200)	Granite 2005-1	(2,798)
General Electric	(8,035)	Landsbanki Islands hf	(2,720)
HBOS	(7,562)	SEB	(2,520)
Citigroup	(6,450)	Nordea Bank	(2,500)
Poland	(5,750)	Bank of America	(2,410)
Barclays Bank PLC	(5,737)	Aire Valley	(2,338)
Danske Bank A/S	(5,297)	Commonwealth Bank of Australia	(2,300)
Royal Bank of Scotland Group	(4,975)	Turkey	(2,250)
Merrill Lynch & Co Inc	(4,450)	Lehman Brothers	(2,225)
SPINTAB	(4,425)	Alliance & Leicester PLC	(2,200)
Nationwide Building Society	(4,305)	DnB NOR ASA	(2,100)
General Motors Acceptance Corp	(4,100)	FIH Erhvervsbank A/S	(2,050)
Goldman Sachs	(3,940)	Morgan Stanley	(2,025)
UBS	(3,524)	Hungary	(2,000)
Northern Rock PLC	(3,300)	JP Morgan	(1,950)
Abbey National	(3,275)	Islandsbanki hf	(1,930)
Kaupthing Bunadarbanki hf	(3,215)	St George Bank Ltd	(1,900)
National Australia Bank Ltd	(3,150)	Pemex	(1,850)
Svenska Handelsbanken AB	(2,910)	PERMANENT FINANCING 7	(1,846)
ANZ Banking Group	(2,800)	Denmark	(1,800)
		Memo item:	
		European Investment Bank	(18,519)

Sources: Thomson Financial-Thomson ONE-Banker Deals and ECB calculations.

Note: Non-euro area issuers whose parent companies are resident in the euro area are not reported in this list. The EIB is included in this list as a memo item as it is also included in the BIS data reported in Tables 1 to 3.

First signals of a paradigm shift?

- A multi billion market
- 300 billion \$ down the drain and 700 to 1700 \$ billion still to come
- Direct banking instead of brick & mortar
- Mortgage business is basis points business
- Microfinance in developing countries
- Private banking for the common man
- Institutional asset management is basis points business
- Banks are merging; moving to 45% cost income ratio
- Capital has become cheap

- *My shift from Merchant banking to IR to SME*

- **The first signs of change: is finance becoming a commodity?**
- **And if so, what does this mean for business?**

Implications business model

- Price becomes key
- Business model changes from high margins, to low margins
- Implying size & scale and efficient operation are important
- Effective marketing, operations and finance become key
- Different clients with different needs
- How to explain a professional concept to non professionals?
- How to create a cost efficient system
 - ✓ Different mind set: from quality to quantity
 - ✓ Different mind set: from BtoB to BtoC
 - ✓ What is in it for them?

My personal shift

- ❖ Traditional (Bank, IR and advisor)
 - ❖ Listed companies
 - ❖ Corporates
- ❖ Strategy and finance are premium goods
- ❖ Know how of listed companies is premium good

- ❖ Listed companies in the Netherlands are declining
- ❖ There are 750.000 companies in the Netherlands
- ❖ How many have more than 1000 employees?
- ❖ How many have less than 10 employees?

- ❖ Why are so few moving into the top ranks?

My learning experience

- SME clients:
 - I think I understand them
 - It looks like they don't understand me
- Research; what are the challenges for SME companies?
- 80% does not know what they are worth
- Almost nobody manages on value creation
- Interview 20 SME
- Learn the SME language
- Main issues:
 - MBA know how
 - Personal insight
 - Risk reward profile
 - Scarce management capacity
 - Limited financial knowledge
- How to get the message across?

My solution

Start with focus on valuation

Help SME management to take control over their own future

Bring it in an accessible way

- ✓ Book
- ✓ MBW - Workshops
- ✓ MBW – Program

Making sure that fair value will be realized

