



**STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BNK 3202 SME RELATIONSHIP BANKING**

DATE: 18th December 2023

Time: 13:00-15:00

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

SECTION 1: ANSWER ALL QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION ONE

1. Define the following Terms.
 - a) Small and Medium Enterprises **(2 marks)**
 - b) Strategic Marketing **(2 marks)**
 - c) Customer centric approach **(2 marks)**
 - d) Customer Attrition **(2 marks)**
 - e) Electronic Customer Relationship Management (e-CRM) **(2 marks)**

2. As opportunities to generate returns from government securities and corporate lending diminish, banks must become more engaged in the small and medium sized business arena. However, all too often, banks have fallen short in serving this segment effectively, so much so, that growing small businesses have often been termed the “missing middle.” SMEs tend to either desert their early banking provider, or multi-bank, as their businesses grow and develop because their ‘start-up’ bank often fails to progress with them. *[Excerpt adopted from FSD ‘SME relationship Banking Approaches’ report by Bennett, Richardson, and Nyauncho, 2015].*
 - a) As indicated above, banks have failed to provide financing for SMEs. List the challenges that SMEs face due to lack of financing. **(6 Marks)**
 - b) Drawing from the above excerpt discuss five benefits of financial institutions developing effective SMEs relationships management. **(10 Marks)**
 - c) Discuss four critical success factors in developing an effective customer relationship management strategy. **(4 Marks)**

SECTION 2: SELECT TWO QUESTIONS IN THIS SECTION EACH (20 MARKS)

QUESTION 2

- a) Small and Medium Enterprises are considered significant actors in development of local economies given their numbers and scales of growth. Discuss five significant contributions of SMEs in local economic development. **(5 Marks)**
- b) Discuss five challenges unique to Small and Medium Enterprises preventing them from accessing financing in developing economies. **(5 Marks)**
- c) According to a study on SME relationship banking approaches, “Before a bank can more effectively relationship manage its SME customers it needs to identify which of their SME customers should be relationship managed”. Critically discuss how relationship lending can help overcome the challenges financial institutions face in lending SME use local bank’s examples. **(10 marks)**

QUESTION 3

Micro, Small and Medium Enterprise and several of them fail due to the challenges they face due to lack of financing to develop the required infrastructure for effective marketing and retention of customers. One of the business owners interviewed by FSD-Kenya mentioned that they had to suffer losses because of the pandemic and restrictions that were imposed by government.

“We bought fresh produce, but it got spoilt because the customers were few. Many customers started buying from the farmers as the markets were closed and the goods were cheaper. Many customers to whom we had advanced goods on credit, like teachers and support staff in schools, went to their rural villages. They did not pay.” – FSA member & market trader, Kilifi County

One of the problems that MSMEs faced during the period was failure to understand their customers due to access of critical information of their customers as a result of information asymmetry that could enable them to reach out to their clients. In view of the above

- (a) List the assumptions that underpin the development of an effective marketing strategy. **(4 marks)**
- (b) Discuss six benefits that arise from developing a customer retention strategy to avoid loss of customers for MSMEs. **(6 marks)**
- (c) To avoid future failures for MSMEs, they are required to develop a strategy to retain their customers. Drawing from the Customer CIC) provide guidance on designing a process to effectively engage customers for MSMEs. **(10 marks)**

QUESTION 4

- a) Discuss four goals of Customer Relationship Strategy for financial institutions. **(4 Marks)**
- b) Drawing from Joy Curry (2022) Customer Pyramid discuss how financial institutions can develop an effective customer-centric strategy using both internal and external customer focus factors. **(6 Marks)**

- c) Based on the benefits that relationship lending can provide for Banks, critically discuss the benefits that financial institutions can draw from interacting with their customers frequently. **(10 Marks)**

QUESTION 5

During covid 19 many businesses were affected as the measures put in place to restrict the spread of the virus brought businesses to a near standstill. Particularly, the financial services sector was hard hit as their traditional banking services and engagement with customers was affected due to the government inflicted restrictions. Simezan bank which saw their revenue drop by up to 35 per cent decided to implement a new strategy that (1) proposed to have a customer-centric approach, and (2) use technology enhanced methods to drive their recovery and revenue growth post-covid 19. The directors require additional information on how they can embed customer centric approach and the benefits they will get from using an electronic customer relationship management system. Drawing from Simezan's case

- a) Discuss five strategies that Simezan can implement to develop a customer centric approach when lending to SMEs customers. **(5 marks)**
- b) Discuss the two similarities and three differences between traditional CRM and electronic (CRM). **(5 marks)**
- c) Critically evaluate five the barriers to adoption of eCRM for Simezan Bank and recommend strategies to overcome them. **(10 marks)**