AiteNovarica

SEPTEMBER 2021

DELIVERING THE EXPERIENCE SMALL BUSINESSES EXPECT

THREE CRITICAL COMPONENTS

PREPARED FOR:

Q2

INTRODUCTION

Small businesses have long been under-served by their banks. They often have to choose between complex treasury platforms and consumer offerings, neither of which effectively meet their needs. Further, bank digital experiences often align with bank silos and processes, as opposed to the ways in which businesses manage and think about their finances. These factors have resulted in missed opportunities for banks, disjointed customer experiences, and a growing risk of disintermediation by emerging fintech companies demonstrating a far better understanding of small-business needs and challenges. Fortunately, technology has evolved to enable banks with the right strategies to successfully serve small businesses with a more holistic and richer experience.

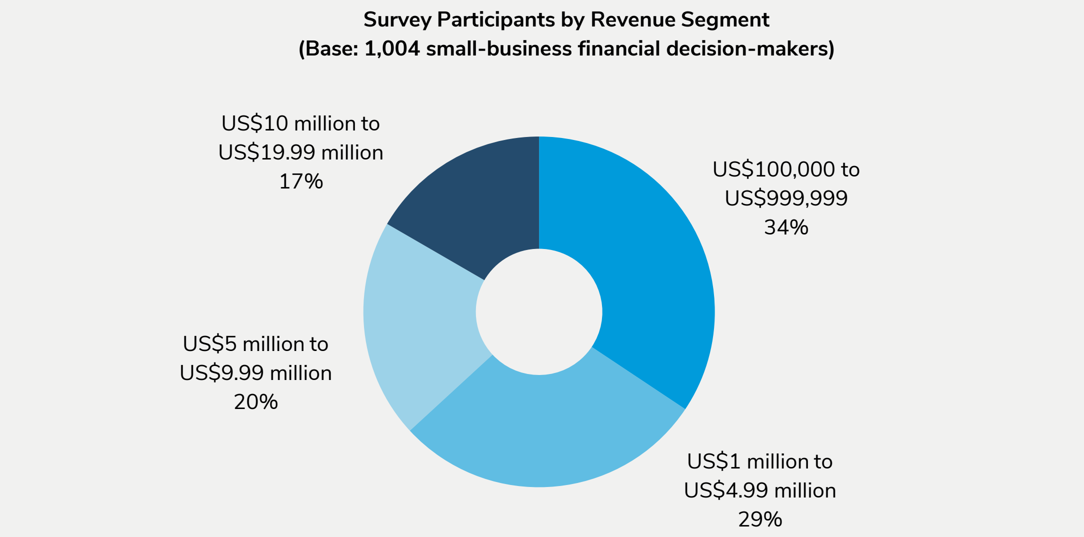
This white paper addresses three key components of a successful bank strategy for serving small businesses. More specifically, it highlights the importance of a fintech marketplace for expanded tools and functionality, automated account opening/onboarding, and tight integration across banking products and services for a more connected experience. Such a strategy aligns with small-business needs and expectations, and offers opportunities for differentiation and new revenue streams in this fiercely competitive market.

METHODOLOGY

This paper is based primarily on the results of a Q3 2021 Aite-Novarica Group online survey of 1,004 U.S.-based small businesses. For the purposes of this paper, "small businesses" are defined as those businesses generating between US$100,000 and US$20 million in annual revenue. While this revenue range extends beyond how some banks may define the segment, the group as a whole represents a large opportunity for banks. Businesses generating less than US$100,000 in annual revenue have intentionally been left out, as their actions most likely mirror those of consumers. A survey of this size offers a 3-point margin of error at a 95% confidence level; statistical tests of significance among differences were conducted at either the 95% or 90% level of confidence, depending on sample size. This paper's content also leverages Aite-Novarica Group's research of banks' small-business offerings and strategies, along with the author's extensive knowledge of the market.

Figure 1 breaks down survey participants by their annual revenue.

FIGURE 1: SURVEY PARTICIPANTS



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

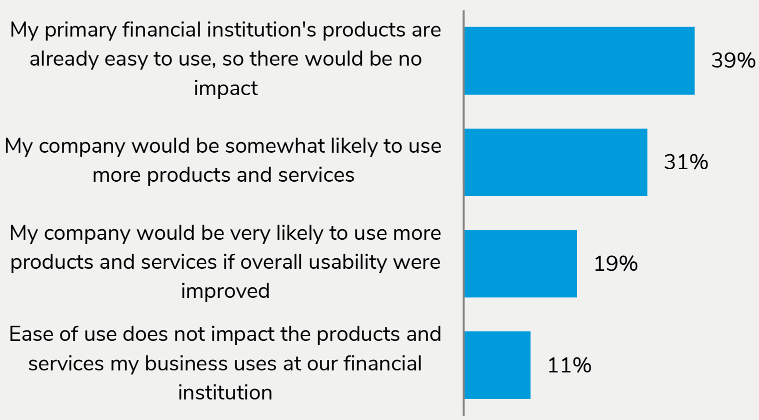
SMALL-BUSINESS FRUSTRATIONS

Approximately one-half of small businesses feel their primary financial institution doesn't understand their needs. This leads to frustration and a subpar situation for these customers and their banks. Small-business digital banking experiences often lack the tools, integration, and speed these customers require to effectively manage their finances, while banks are missing opportunities for deeper and more profitable client relationships. Banks can change this by altering their strategies, better leveraging available technology, and creating a more holistic experience for their customers.

At a high level, change must begin with a digital-first approach with a focus on increased usability. Small businesses admit they are likely to use more bank products and services when they are easy to use (Figure 2). These findings are consistent regardless of business size.

FIGURE 2: THE CONNECTION BETWEEN EASE OF USE AND BANK PRODUCT ADOPTION

Q. Which of the following best describes your company's likelihood to use more products and services at your primary financial institution if they were easier to use (for example, more simplified and streamlined electronic payments)?
(Base: 1,004 small-business financial decision-makers)



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

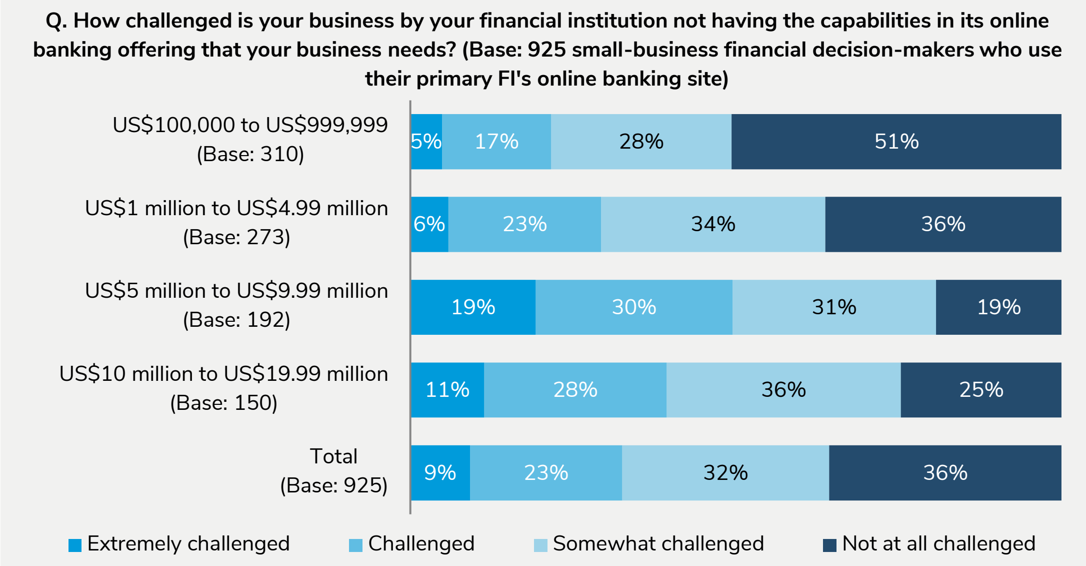
CREATING THE TYPE OF EXPERIENCE THAT ALIGNS WITH SMALL-BUSINESS NEEDS AND EXPECTATIONS

Fortunately, most banks recognize the importance of usability and have already been shifting their attention in this direction the last few years. However, usability alone will not lead to greater success with small businesses. Banks must also ensure they are providing intuitive and fast access to the right products and services when needed, with as little friction as possible. This may be achieved through the creation of fintech marketplaces, more automated onboarding, and tighter integration across product areas.

Creation of Fintech Marketplaces

Small businesses are more tech-savvy and aware of the digital tools they need to manage their businesses than ever before. They see gaps in what is being offered to them and are looking for more from their banks. This scenario is creating challenges for them, especially those businesses generating greater than US$5 million in annual revenue (Figure 3).

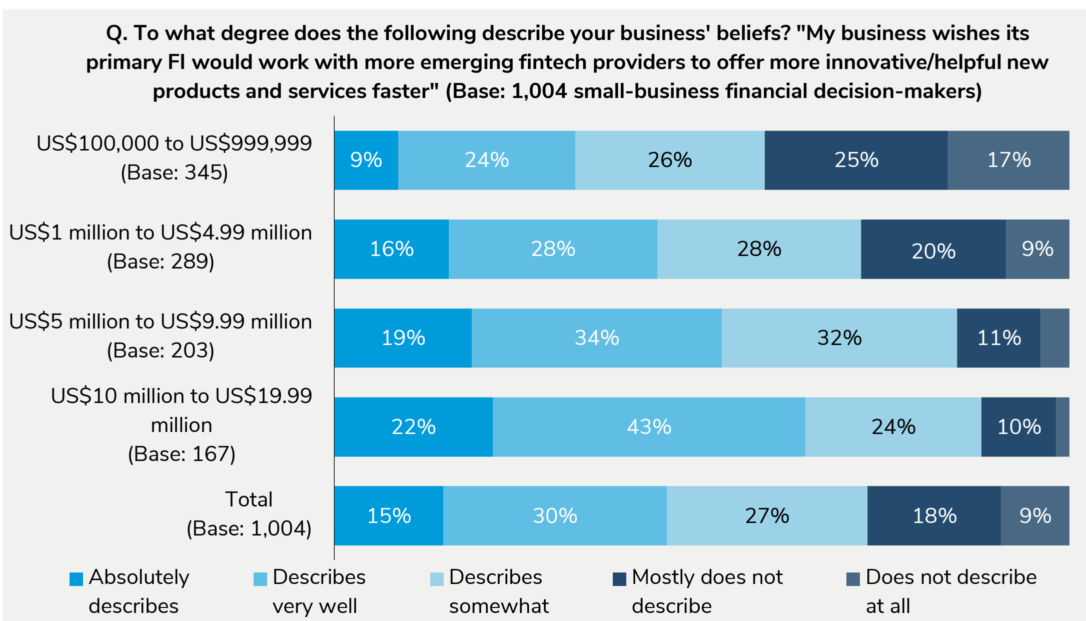
FIGURE 3: BANK CAPABILTIY GAPS ARE CREATING CHALLENGES FOR BUSINESSES



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

Their definition of banking is expanding, and businesses are looking to their banks for assistance with capabilities such as receivables automation, expense management, cashflow forecasting, and seamless payment initiation processes with more payment options. Though these capabilities go beyond what banks have historically offered, they represent the “new normal” for what customers expect and need from their banks. The fintech community has quickly capitalized on these gaps and, in many cases, have created new options for businesses that exclude banks. Aite-Novarica Group estimates about 60% of small businesses already partner with a fintech company for a financial capability that could be offered by a bank. That percentage increases to 70% among businesses generating between US$5 million and US$20 million in annual revenue. Many of these businesses have gone elsewhere out of need, rather than preference, as they would rather get these capabilities from banks. Thus, it is not surprising that at least 45% of small businesses want to see their banks partnering with more fintech providers; an additional 27% feel this way to some degree. Not surprisingly, the highest percentage is coming from businesses generating greater than US$5 million in revenue (Figure 4). Partnering with more fintech providers will broaden bank capabilities and position them as advisors, even in instances in which they are simply referring their customers to fintech capabilities. Most small businesses feel more comfortable leveraging fintech capabilities recommended by their bank or integrated with their bank portal, as opposed to seeking out a partner on their own. Businesses trust their banks will properly vet fintech company referrals.

FIGURE 4: BUSINESSES WANT TO SEE MORE BANK/FINTECH PARTNERSHIPS



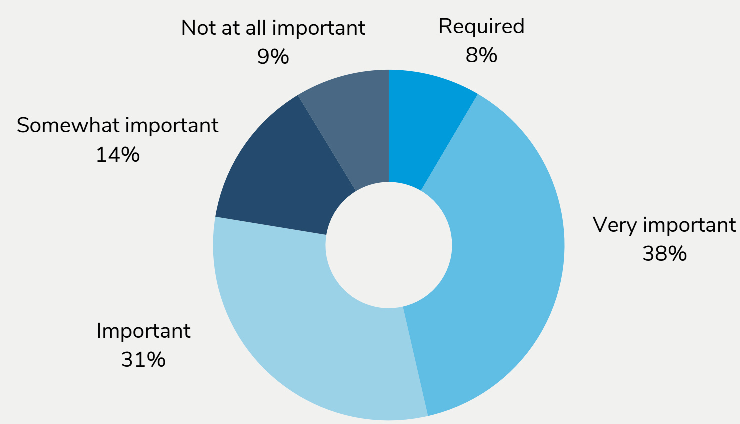
Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

ONLINE ACCOUNT OPENING/ONBOARDING

Once a small business determines it needs new bank capabilities, it expects quick, automated, and paperless bank processes to gain access to them. Thus, banks must have online account opening/digital onboarding capabilities in place. This has become a top priority for most institutions, with an even higher level of urgency because of the COVID-19 pandemic. Customers don't want to have to go into a branch to open an account or rely on relationship managers to gain access to needed capabilities. Online account opening capabilities are expected, and banks not offering them will begin losing business as a result. Online account opening is no longer a nice-to-have but rather is a requirement for banks to remain competitive. These expectations are consistent across revenue segments with all size businesses seeing its importance (Figure 5).

FIGURE 5: THE IMPORTANCE OF ONLINE ACCOUNT OPENING

Q. To keep your business as a customer, how important is it that your bank provide digital/online account opening?
(Base: 1,004 small-business financial decision-makers)

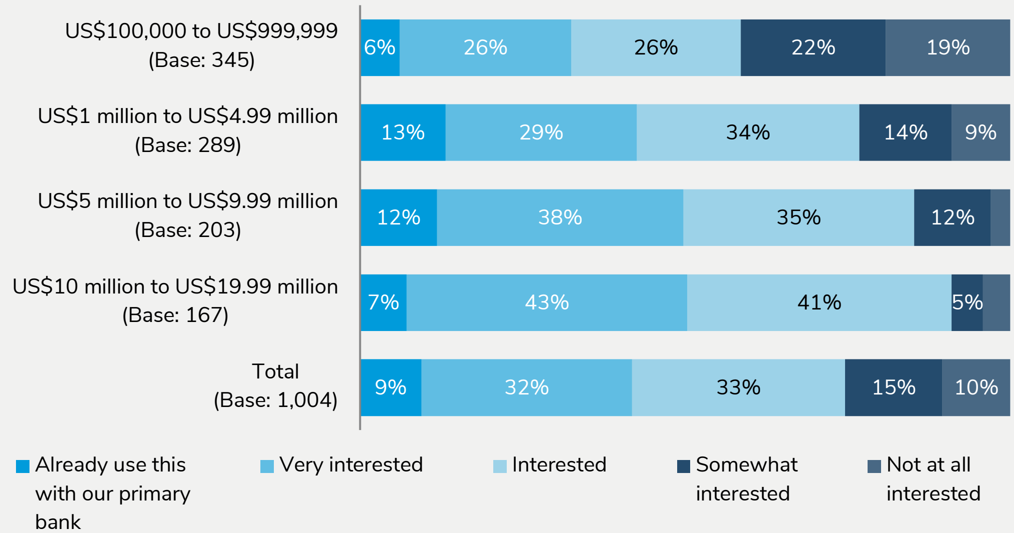


Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

While the smallest businesses are slightly less likely to open accounts and apply for products digitally without a relationship manager or branch visit, most businesses regardless of size are seeking a fully digital experience (Figure 6).

FIGURE 6: INTEREST IN A FULLY DIGITAL ACCOUNT OPENING/ONBOARDING EXPERIENCE

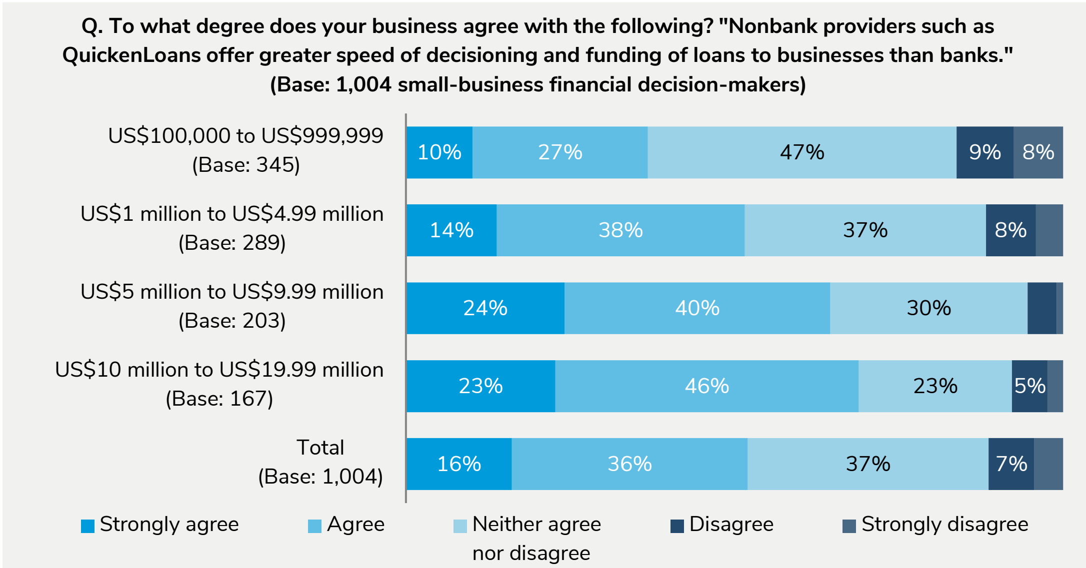
Q. Assuming it is available at your primary institution, how interested is your business in opening accounts/applying for new products fully online without a relationship manager or going to a branch? (Base: 1,004 small-business financial decision-makers)



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

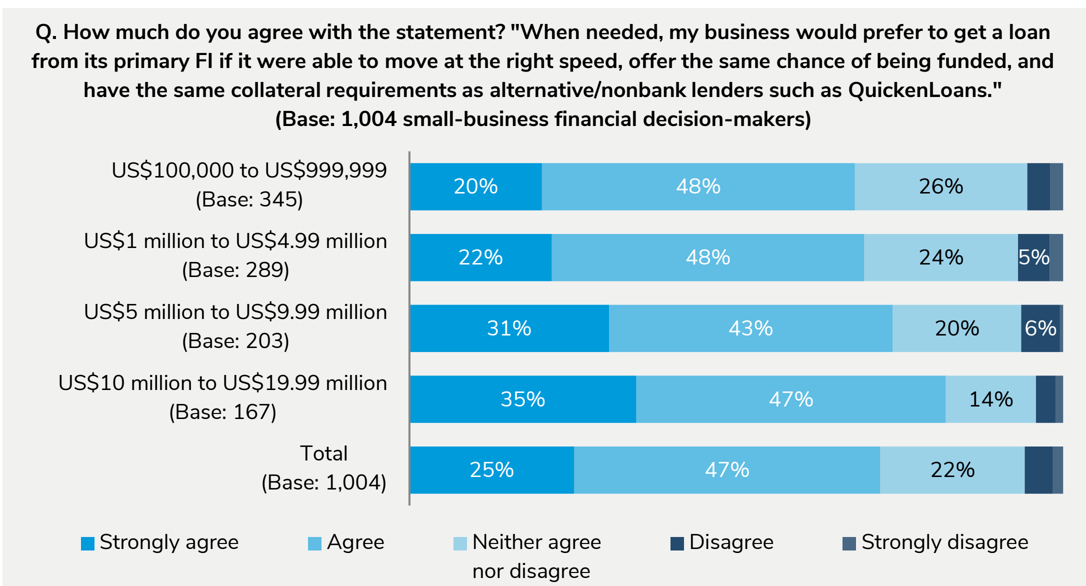
The desire for faster account opening and onboarding is not limited to the deposit side of the bank. Small businesses are looking for a similar experience for lending. They are interested in the ability to apply for loans online, but more than half of small businesses (especially those generating greater than US$5 million in annual revenue) view nonbank providers as offering a superior experience with greater speed of decisioning and funding (Figure 7). If banks can improve their processes, they would be far better positioned to win more lending business, as most small businesses would ultimately prefer to give this business to a bank (Figure 8).

FIGURE 7: FAVORABLE VIEW OF ALTERNATIVE LENDERS



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

FIGURE 8: PREFERNCE TO BORROW FROM BANKS



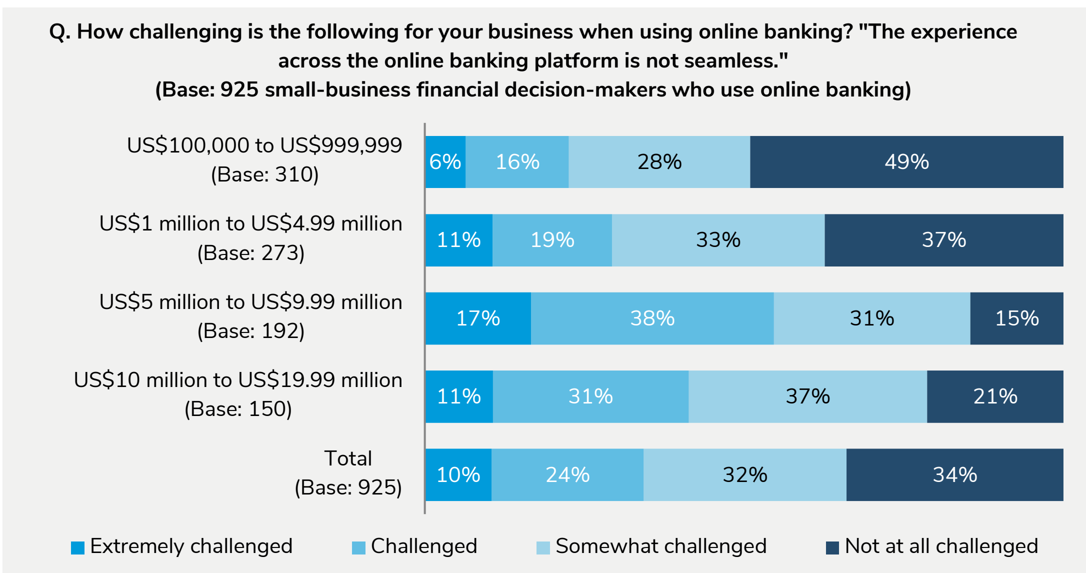
Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

An automated experience and faster access to new products and capabilities improves the overall customer experience with a bank. Faster access to products also means faster revenue acquisition for the bank and new opportunities to cross-sell other products. Efficient account opening and onboarding processes include smart forms that enable customers to enter information once and have multiple fields auto-populate, can digitally scan and upload documents, can embed digital signatures, and are multichannel.

CREATING AN INTEGRATED FINANCIAL EXPERIENCE

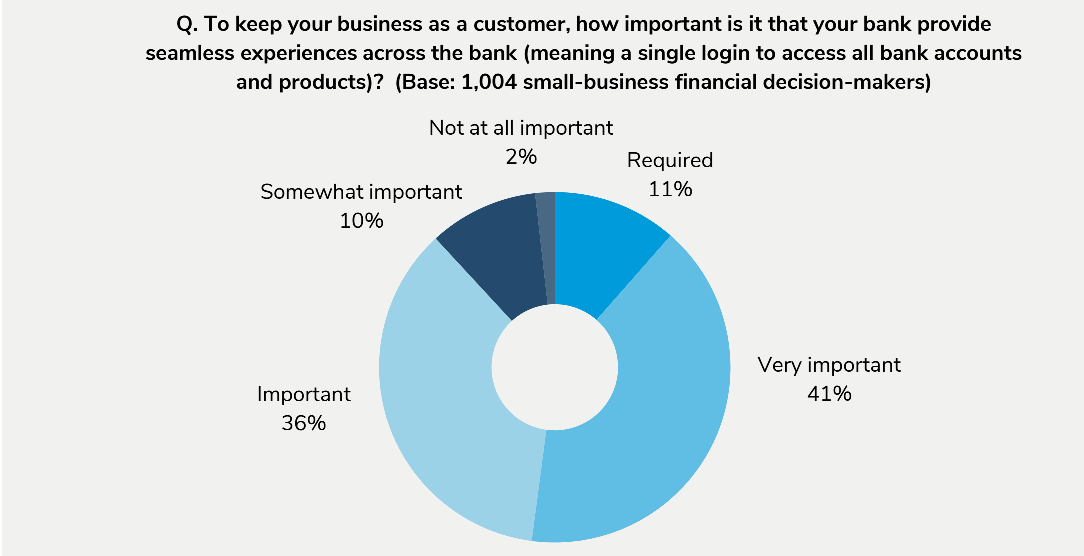
Tighter integration between the bank's portal and fintech companies, and more online account opening capabilities are key components to a more seamless and integrated experience for small businesses. While delivering such an experience is a goal for many financial institutions, it is not yet the norm, as many banks' technical infrastructures remain siloed and fragmented. Most small-business online banking experiences are hampered by multiple system logins to access the information they need (Figure 9). This must change, as more than half of small businesses (52%) state that a seamless experience across the bank that includes a single login to access all accounts and products across the bank is required or very important for a bank to keep its business going forward (Figure 10).

FIGURE 9: UNINTEGRATED EXPERINCES ARE A CHALLENGE



Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

FIGURE 10: THE IMPORTANCE OF SEAMLESS DIGITAL EXPERIENCES



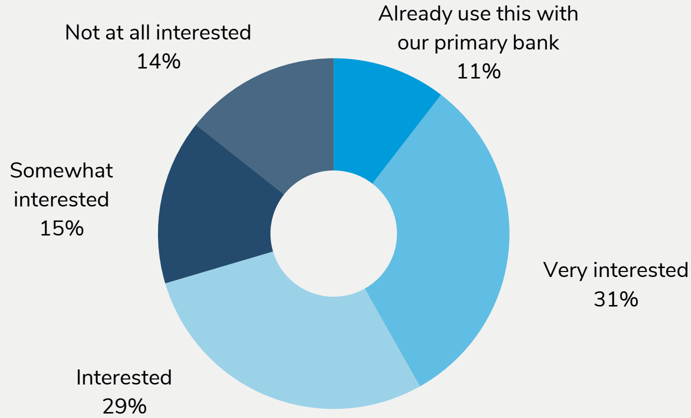
Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

That seamless experience should not only be on the deposit side of the bank but should also include lending/credit. This requires bank silos to come down to better align platform workflows with the ways in which businesses manage their finances. For example, if a small-business owner notices it has insufficient funds to cover a pending payment, it should be able to easily drawdown on an existing line of credit without having to log in to a new system. The same is true for payments. While banks differentiate across payment types and payment rails, small businesses simply want to make payments. They desire experiences in which they simply provide basic information and the bank determines the right payment type.

Small businesses also want the ability to apply for a loan within the online banking platform, rather than having to log in to a different lending platform as many do today. While only 11% of survey participates already enjoy this capability, an additional 60% are interested in it (Figure 11). This integration provides greater convenience, time savings, and the connected experience small businesses desire.

FIGURE 11: INTEREST IN APPLYING FOR LOANS WITHIN ONLINE BANKING

Q. Assuming the ablity to apply for a loan through online banking were available at your primary financial institution, how interested would your business be in using the service? (Base: 1,004 small-business financial decision-makers)

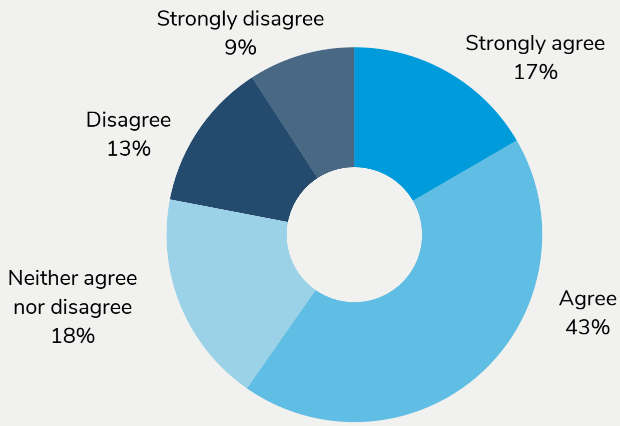


Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

In addition to greater convenience for payments, originations, and drawdowns, integration across products also enables the sharing of data across the organization so information already collected for one product can automatically populate required information fields for new products. Small businesses would like to see such capabilities for greater automation and ease when applying for credit. Of businesses surveyed, 57% state their bank often asks for information previously provided. Not surprisingly, 60% of those experiencing such a situation are frustrated by it (Figure 12).

FIGURE 12: FRUSTRATIONS ASSOCIATED WITH DATA COLLECTION

Q. How much do you agree with the following statement? "My business gets frustrated when its primary financial institution asks for information we have previously provided." (Base: 589 small businesses whose primary FI asks for information previously provided)



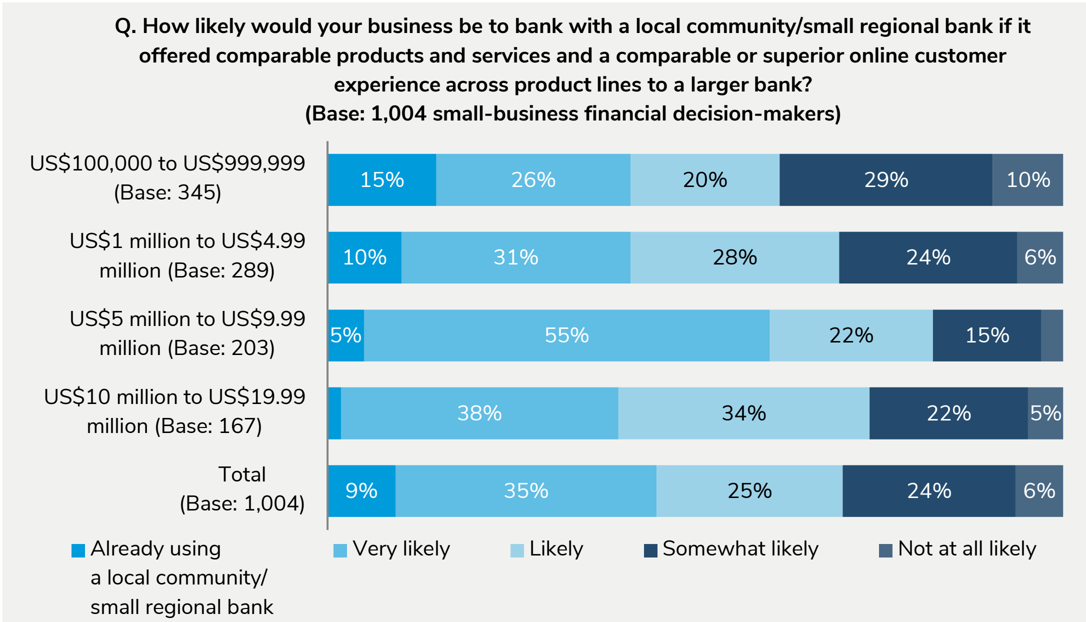
Source: Aite-Novarica Group survey of 1,004 U.S. small-business financial decision-makers, Q3 2021

CONCLUSION

While larger banks have been faster at putting some of these initiatives in place, all banks, regardless of size, must be prioritizing them. The small-business segment is too large and too important for banks to ignore, or they will miss opportunities. Most U.S. banks see increased success with small businesses as critical to the overall success of their banks, but that success requires the right priorities, strategies, and technology to support them. Customer expectations continue to evolve; thus, maintaining the status quo is no longer sufficient. Selecting the right technology partners with forward-looking product roadmaps that align with a bank's vision is also critical.

While the Big Four banks (Bank of America, Citibank, JPMorgan Chase, and Wells Fargo) continue to maintain the largest share of small-business revenue due in part to the perception that they are more innovative, that doesn't have to be the case. Technology is available at a price point to help level the playing field for all institutions. In fact, more than 60% of businesses would be more likely to bank with a local community/small regional bank if it offered comparable products, services, and online customer experiences than to work with a larger bank (Figure 13). Making the right changes will also better position smaller institutions to achieve greater success with the higher end of the customer segment (i.e., businesses generating greater than US$10 million in annual revenue) where they have historically had less success. The opportunities are there. It is up to the smaller banks to seize them.

FIGURE 13: THE OPPORTUNITY FOR COMMUNITY/SMALL REGIONAL BANKS



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ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base. The quality of our research, insights, and advice is driven by our core values: independence, objectivity, curiosity, and integrity.

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