

Q2

**Digital Banking for
a New Generation
of SMB Owners**

Challenges FIs Face Serving Today's SMB Market

There's nothing small about small to mid-sized businesses. In fact, SMBs account for more than 99% of U.S. businesses, generating 44% of U.S. economic activity and employing almost half the private sector workforce.¹

SMBs can be anything from the corner bakery to a quaint, small-town bed and breakfast to the next big tech idea. They're diverse and complex, and their owners are quite like individual consumers in that they want what they want when they want it. They're extremely tech-savvy and tech-demanding, expecting sophisticated, smooth, personalized, and speedy digital experiences, plus self-serve options—just like they get with the smartphone in their pocket.

Given the pace of change and the ever-evolving needs and demands of SMBs, some community financial institutions are finding it more difficult than ever to attract, serve, retain, and grow their business. Once the “go-to” resource for small business owners in the days of “branches only,” community FIs are now challenged to digitally serve this market. Plus, their legacy systems often don't allow for agility and flexibility, so by the time they implement a “new” digital offering, it's likely no longer innovative.

Because of the way digital banking technology has evolved, most FIs have been forced to serve their SMBs with “too-small” consumer solutions or “too-large” commercial solutions. This dynamic is also what's made it difficult for FIs to offer up tailored solutions for each SMB's unique needs.



99%

of today's U.S.
businesses are SMBs,
making it a segment
you can't ignore.

¹ “The State of Small Business Now,” U.S. Chamber of Commerce, April 2023
<https://www.uschamber.com/small-business/state-of-small-business-now#:~:text=Key%20Takeaways%201%20There%20are%2033.2%20million%20small,new%20business%20applications%20were%20filed%20in%20the%20U.S.>

Enter Fintechs

Seeing this gap in service, fintech disruptors came to the digital rescue—demonstrating an understanding of small business needs and challenges and quickly developing solutions ranging from lending to bookkeeping to payroll processing to invoicing. Just like they did with retail banking, fintechs started sprouting up left and right, focusing on building the best possible digital products to solve individual SMB problems. Consequently, they've wound up winning considerable mind and market share.

This is especially true when it comes to cash management tools, such as cash forecasting. In fact, a March 2024 report by Datas Insights² shows that 36% of small businesses surveyed are going beyond their primary FI for money management tools. When asked whether it was important for their primary FI to offer cash management tools in order to keep their business, 49% of SMBs surveyed said it was very important, and 25% said it was important. While it remains true that SMBs would prefer to get these capabilities from their FIs, they won't hesitate to change FIs to get what they need. The Datas report shows that 33% of SMBs are likely to switch FIs in the next two years.

Meanwhile, the fintech market itself is changing. According to CB Insights³, in Q1 2024, fintech funding hit its lowest quarter-over-quarter level since 2017 to \$7.3 billion. Limited venture capitalist dollars could put fintechs at risk and certainly prohibit new disruptors from entering the market. The added pressure to perform has many fintechs looking for new avenues to grow.

Are these various circumstances converging to create a world in which fintechs need to partner with FIs to survive and grow? If so—and SMBs still prefer doing business with their FIs—is there a world in which FIs stand to benefit from partnering with fintechs, offering their products via an FI's channels and brand?

² "Top 10 Areas Small Businesses Want Their Banks to Invest in During 2024," Datas Insights, March 2024

³ "State of Fintech," CB Insights, Q1 2024

According to
Datos Insights,

74%

of small businesses stress
the importance of **their
primary FI offering
money management
tools** in order to keep
their business.

Redefining and Reclaiming SMB Relationships

FI leaders know SMBs want them to better meet their needs. And they know it's important to their strategy and survival to offer SMBs innovative solutions. They've also watched the meteoric rise of fintechs, and now the growth pressures they face in this current economic downturn. They understand the urgency and importance of stepping up and once again acting as that go-to resource in their community.

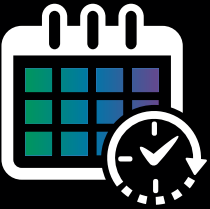




But how? Instead of viewing fintechs as a competitive threat, swooping in with niche solutions and taking market share, FIs should look at them as collaborators. What if FIs could easily add fintech solutions to their core digital offerings? Rather than trying to specialize in—and effectively digitize—every aspect of an SMB's financial needs, they could “outsource” these solutions by bringing in premium digital experiences offered by leading fintechs.

The effect is FIs once again become the place SMBs turn for all of their financial needs, without having to build or manage everything themselves. Offering SMBs a “fintech ecosystem” of banking-adjacent products that are natural fits in a digital banking platform is game-changing—for both FIs and the SMBs they serve.

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A Week in the Life of an SMB Owner

To better understand how a fintech ecosystem could help SMBs, let's take a look at a fictitious business owner and his taco stand. Meet Allen George, who owns and operates Triton's Tacos on the Gulf Coast of Florida. Allen uses his digital banking platform as the central hub of his day-to-day operations. Here's how his week could potentially unfold.

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				
> Creating a Work Schedule for the Week	> Invoicing	> Mileage Tracking	> Bill Payments	> Charitable Donations

Embedded in his digital banking platform is an app that helps Triton's Tacos' owner Allen George manage the shop's work schedules, time clocks, payroll, HR, and more.



MONDAY > Creating a Work Schedule for the Week

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Monday morning, he logs into his banking platform, selects the scheduling app, and begins building out his schedule for the week. His employees have access to the app on their end to enter their desired hours, making it easy to track availability and time off to avoid scheduling conflicts. Allen then publishes the schedule, and his team is instantly notified via text, email, and the app.

TUESDAY > Invoicing

Allen needs to get an invoice out for a catering job he did over the weekend, so again, he logs into his digital banking platform and selects the invoicing app exclusively designed for small businesses. He completes the invoice and shares a secure link to his payment form with the client and also sends out the invoice by text and email.

WEDNESDAY > Mileage Tracking

Mid-week, Allen signs into his digital banking platform and selects the app he uses to track mileage he puts on his taco truck that runs up and down the coast daily, serving the public beaches. The app automatically tracks all of Triton's Tacos' mileage, expenses, income streams, and tax deductions in real time.

THURSDAY > Bill Payments

Triton's Tacos has a supplier in Mexico from whom Allen orders special spices for his popular mole sauce. One Thursday a month, he sends a payment to this international vendor. Today, he logs into his digital banking platform and clicks on his payments app. Next, he builds out a quote to understand the U.S. dollar conversion to pesos. So now he knows he needs to send \$100.10 U.S.D. to Mexico.

Allen also wants to understand any exchange rates and/or fees he'll incur converting and transferring the money, which he can also calculate within the app. Finally, he creates and sends a message to the vendor in Mexico who's receiving the invoice.

FRIDAY > Charitable Donations

Allen is very philanthropic and wants to give back to the community that helped make Triton's Tacos a success. Before the work week is over, he goes to a charitable giving app through his digital banking platform and looks for a charity that supports hospitality workers. He can select any nonprofit in the U.S., as the app has a huge library of options. If he can't find what he's looking for, he can add a charity of choice on the app.

Allen then decides to engage his whole team and even his customers in giving back by setting up a workplace fundraiser and matching gift campaign—all from his digital banking platform.

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Is This Possible?

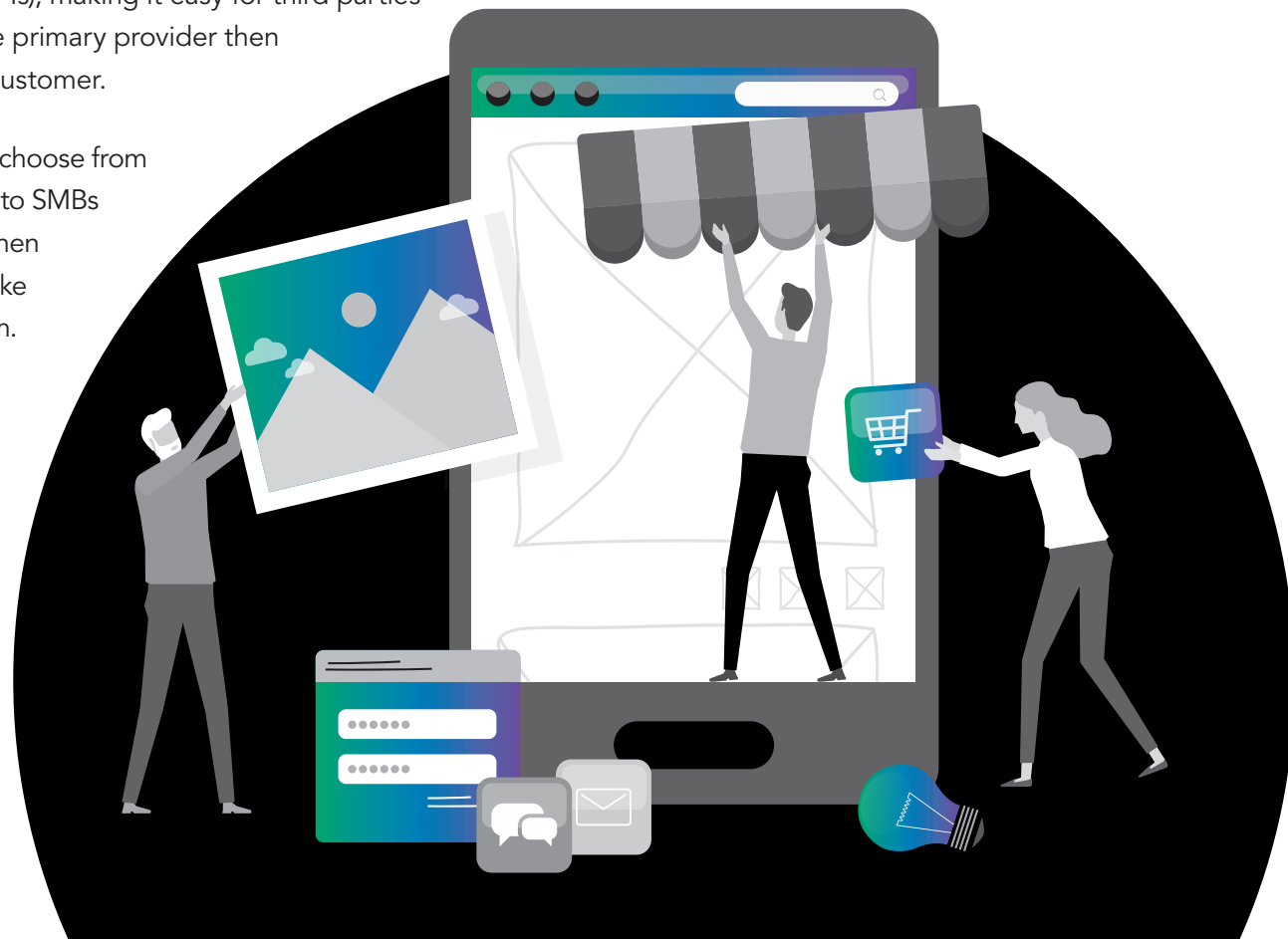
Bringing the Marketplace Model to Financial Services

It's a pretty picture, but most FIs would be challenged to operationalize this model today. It can take months just to vet and partner with a new fintech, let alone test and implement its product. And that's to say nothing of making the experience cohesive with the rest of the digital banking channels. Most tech vendors in the banking space have built their business on making integrations like this difficult and costly.

Other industries have solved this problem through marketplace or ecosystem models. In a marketplace, the primary technology provider—in this case, the fictional digital banking vendor—opens its technology via software development kits (SDKs) or application programming interfaces (APIs), making it easy for third parties to integrate directly into the primary technology. The primary provider then makes the procurement process simple for the end customer.

Once an FI integrates with this type of platform, it can choose from the various partner solutions and make them available to SMBs inside their digital banking channel. SMB owners can then browse and purchase these solutions in an app store-like environment found within their digital banking platform.

The future of banking innovation lies in this technology and partnership model. With it, taking care of small business owners is as simple as offering a marketplace just like the one Allen George uses. One that leverages an expansive and highly active digital banking channel to access end users with one single integration through an app-store like experience.



What's In It for SMBs?

Small business owners benefit from having an ecosystem of safe, secure, reputable fintech options they can trust because they've been thoroughly vetted by their FI. For example, instead of visiting the branch and asking their banker for bookkeeper referrals (like they would've a decade ago), they have accounting apps right in their digital banking platform, already curated by their FI. Plus, SMB owners can tailor the experience for themselves by selecting the specific fintech products THEY need to run THEIR business.

And, as illustrated by Triton's Tacos' owner Allen George, managing a small business is about so much more than an operating account and a single small business loan. And the fintech optionality can be overwhelming for some small business owners. Having a vetted ecosystem at their fingertips helps small, local establishments save money, operate more efficiently, provide better experiences for their employees, and ultimately grow their businesses.

Benefits for FIs

Community banks and credit unions have a real and immediate opportunity to serve SMBs differently than one-off fintechs and mega banks. They can once again be that backbone of their community—but now digitally. Plus, by taking care of local businesses, FIs return to their roots of helping to create growing, thriving communities.

Finally, by building a safe, secure ecosystem of products that go beyond banking, FIs are able to drive more and deeper engagements, increase the number of products per SMB, improve retention, boost SMB customer loyalty, and generate net new income by getting a revenue share, for example, for every fintech product their account holders adopt.

How Fintechs Benefit

Fintechs are under more pressure than ever to increase customer acquisition and decrease time to revenue. A fintech ecosystem can open up access to integrate with an FI's customers—offering a scalable go-to-market channel that results in faster, more efficient sales and integration cycles. In addition, the fintech gains access to a captive audience of digital banking platform users, helping it grow organically. Plus, the fintech earns immediate credibility because the SMB customer already has a trusting relationship with its FI.

What's Next?

Change the Fintech Paradigm—and Demand More From Tech Vendors

FI leaders need to start thinking differently about how to serve SMB customers. The old mentality of having to customize offerings and build everything from scratch is no longer necessary or even viable.

There's more than one way to innovate digitally—smartphones are a perfect analogy. Back in the '90s, if 100 people had a Nokia phone, they each had the exact same product. Today, there are more than 124 million iPhone users in the U.S., and it's safe to assume each one of these smartphones is made up of different components based on whose pocket it's in and that person's unique needs and wants. An FI's digital banking platform serves as a similar foundation—a tool on which each SMB owner can build a tailored, unique experience.

Great minds are innovating left and right. FIs should leverage these existing technologies and partner with those already developing innovative solutions in the financial space. They need to look for offerings that are modular, out-of-the-box, but can still be tailored to create personalized experiences. And frankly, they need to demand more from their vendors, who have historically been the biggest perpetrators of closed-loop, proprietary, tough-to-integrate technology approaches—the philosophical opposite of a marketplace or ecosystem model.

Above all, FI leaders need to keep an open mind. They genuinely care about their communities and can be a tremendous resource for them. This is the key differentiator for community banks and credit unions.



About Q2

Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder—from consumer to small business and corporate. Headquartered in Austin, Texas, Q2 has offices throughout the world and is publicly traded on the NYSE under the stock symbol QTWO. To learn more, please visit **[Q2.com](https://q2.com)**.

