

# **Real Needs Demand Real Solutions: The Drive Toward Greater Small-Business Success**

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Prepared for:



## EXECUTIVE SUMMARY

*Real Needs Demand Real Solutions: The Drive Toward Greater Small-Business Success*, commissioned by Bill.com and produced by Aite Group, analyzes some of the key challenges banks face in the small-business space and steps they should take to develop and deliver more effective product bundles to deepen client relationships.

Key takeaways from the study include the following:

- Banks serving small businesses are often challenged by underutilized products, gaps in product portfolios, and negative client perceptions about their ability to innovate.
- Despite the strong preference small businesses have for digital capabilities, many bank digital offerings, such as online bill pay, have lower than expected adoption rates due to inadequate capabilities and a misalignment between client needs and bank product features.
- Banks recognize that work needs to be done. Fifty-nine percent rate their institution's ability to evolve its small-business product offerings and services as quickly as client expectations change to be "extremely weak" or "weak." An additional 24% give their institutions merely an "average" rating.
- The future looks bright for those institutions willing to make the necessary changes and investments. Achieving greater success will require banks to take a more consultative approach to recognize and prepare for new customer needs, address those needs with the right products and services, consider partners, take a digital-first approach, and present the value proposition of offerings in a way that resonates with the end-user.

## METHODOLOGY

This whitepaper is primarily based on the results of two recent Aite Group studies. The first is an October 2015 online survey of 1,000 U.S.-based businesses generating less than US\$20 million in annual revenue. For the purposes of this paper, that revenue range will be used to define "small businesses." The second is a Q4 2016 and Q1 2017 survey of large and midsize U.S.-based banks. It leverages the author's in-depth knowledge of small-business needs and challenges and bank strategies in the space.

## INTRODUCTION

A desire to achieve greater success in the small-business space, coupled with the industry pivot away from product cross-sell sales incentives and aggressive sales quotas, has most banks striving to implement more effective relationship deepening strategies. Creating a more consultative approach that enables a better understanding of the client and its challenges is central to their success. That knowledge must be leveraged to ensure client needs are being addressed with the most effective product offerings. Doing so will create satisfied clients that grow with the bank as their needs evolve.

This whitepaper highlights some of the key challenges banks face when addressing the small-business market. It stresses the importance of a digital-first approach to product development and the need for banks to broaden their capabilities to prevent clients from going elsewhere. Finally, it analyzes large and midsize banks' self-assessment of areas of underperformance and some of the strategies they should implement over the coming months.

## BANK CHALLENGES

Banks are plagued by three key challenges in the small-business space:

- Underutilized product offerings
- Gaps in current product portfolios
- Negative client perceptions of their ability to innovate

### UNDERUTILIZED PRODUCT OFFERINGS

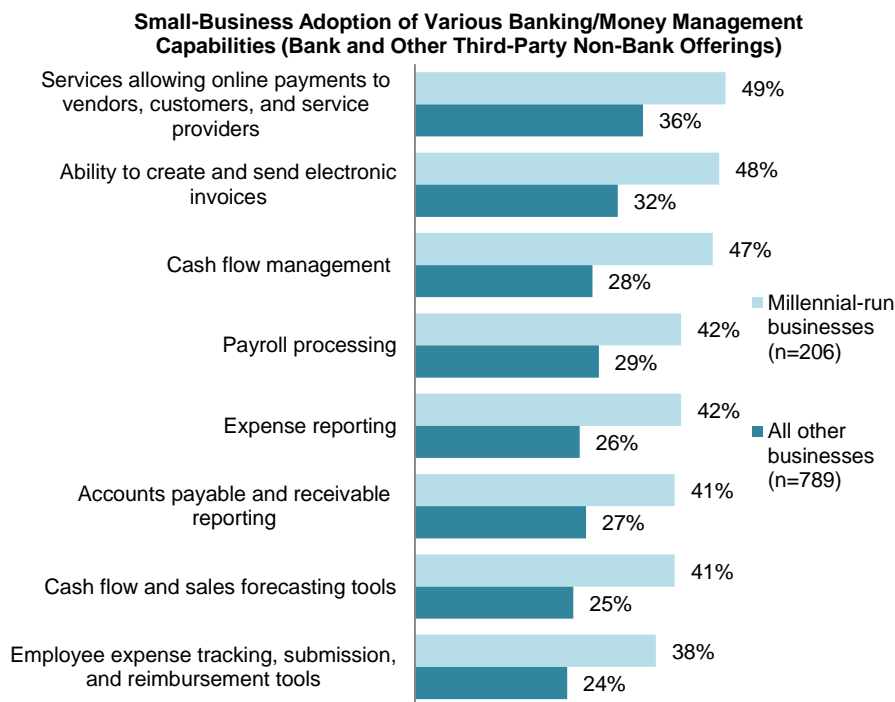
Small businesses value digital channels. The online channel is their preference when performing most bank transactions, and approximately 45% bank via a mobile device (53% among millennial-run businesses). Thus, it is not surprising that more than 61% of businesses generating less than US\$20 million in annual revenue state that a bank's ability to offer sophisticated online and mobile banking capabilities is an "important" or "very important" consideration when selecting a new bank partner. Further, businesses unhappy with their bank's digital offerings are more than twice as likely to switch financial institutions than those that are satisfied.

Despite the high level of importance small businesses place on digital capabilities, most banks struggle with lower than expected end-user adoption of many of their digital offerings. One such example is online bill pay. Although most banks consider online bill payment to be table stakes for succeeding in the small-business space and 83% of small-businesses state they would at least consider making online payments if the capability were available to them, current active adoption (regular as opposed to one-time or periodic users) of bank-provided online bill pay by small businesses is only about 10%. Instead, approximately 50% of small businesses that pay bills electronically prefer to do so directly at biller websites or through the payment offerings of fintech companies. The primary reasons for this are low usability, convenience, and effectiveness.

- **Usability:** Fintech companies have raised the bar for user experience, thereby making many bank offerings appear dated and clunky. Improvements to navigation, information access, and ease of transaction completion are often needed. Banks recognize their shortcomings. When asked to rate their ability to offer easy-to-use digital banking capabilities, 35% of large and midsize banks describe their own institution as “weak,” while an additional 41% give a self-evaluation of merely “average.” User experience is critical to time-starved generalists who run small businesses, so it is no wonder they are gravitating to more user-friendly sites.
- **Convenience:** Many small businesses are bypassing their bank sites and going directly to biller sites for the convenience of viewing and paying their bills/invoices in a single location.
- **Effectiveness:** A misalignment exists between bank bill-pay offerings and client needs. Most banks offer essentially the same bill-pay offerings to both consumers and small businesses. Such offerings are geared more toward consumers and thus don’t include the entitlement capabilities small businesses often require. Additionally, bank offerings rarely automatically sync with small-business accounting packages, such as Quicken or QuickBooks (both are used by approximately 47% of small businesses), thereby requiring error-prone manual steps or delays in updates. These factors significantly lower the product’s value proposition.

## GAPS IN CURRENT PRODUCT PORTFOLIOS

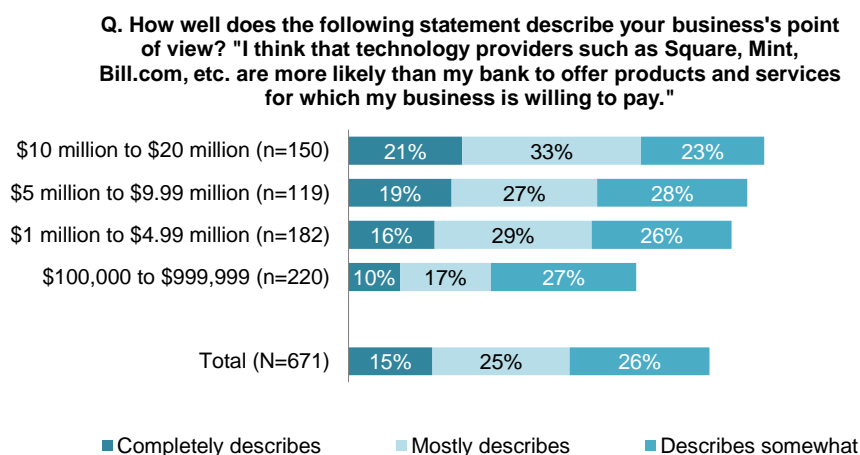
In addition to their struggles with underutilization of existing products, banks also face increased pressure to further broaden their product portfolios to better address customer challenges. Small businesses in general, regardless of size, are growing in sophistication and need more advanced banking products than ever before. Most bank product portfolios have not effectively kept pace, leaving room for new market entrants to fill their gaps. More than 40% of small businesses are already going beyond their banks to meet at least one financial need. This percentage will increase if banks don’t alter their path, especially as millennial-run businesses start to comprise a larger percentage of all small businesses. Millennial-run businesses are more comfortable adopting new technology upon release and are less loyal than traditional small-business owners, thus making them more willing to go elsewhere for a better-suited offering. They are already showing a high propensity to use sophisticated online banking products and tools, such as online payments, electronic invoicing, and cash flow management, to name a few, and they represent the future mainstream (Figure 1). Many of the financial products they currently use or plan to use are not offered by the majority of banks.

**Figure 1: Small-Business Use of Sophisticated Banking Products**

Source: Aite Group survey of 1,000 U.S.-based businesses generating less than US\$20 million in annual revenue, October 2015

## NEGATIVE CLIENT PERCEPTIONS ABOUT INNOVATION

Approximately 40% of small businesses believe technology providers (such as Square, Mint, and Bill.com) are more likely than their bank to offer products and services for which their business is willing to pay. An additional 26% believe that statement is “somewhat” true. This belief becomes more widespread as businesses grow in size (Figure 2). It is also higher among millennial-run small businesses. These businesses hold high opinions of fintech companies; they have grown up with companies such as Google and Amazon and often trust that those brands will better meet their needs than banks.

**Figure 2: Attitudes Toward Nonbank Providers**

Source: Aite Group survey of 1,000 U.S.-based businesses generating less than US\$20 million in annual revenue, October 2015

Such perceptions place banks at risk of simply becoming a place to deposit their funds with clients going elsewhere for the value-added revenue-generating services.

## ACHIEVING GREATER BANK SUCCESS

Banks recognize that work needs to be done. Fifty-nine percent rate their institution's ability to evolve its small-business product offerings and services as quickly as client expectations change to be "extremely weak" or "weak." An additional 24% give their institutions only an "average" rating. Despite this, the future looks bright for those institutions willing to make the necessary changes and investments. Achieving greater success will require banks to take a more consultative approach to recognize and prepare for new customer needs, address those needs with the right products and services, consider partners, take a digital-first approach, and present the value proposition of offerings in a way that resonates with the end-user.

### IDENTIFY AND PREPARE FOR NEW CUSTOMER NEEDS

Banks are making an effort to shift away from misaligned product bundles and misguided sales strategies that reward individuals for pushing and selling products that customers don't need. Technology is now available to help bankers better understand market needs and more effectively address them. Banks must take more of a consultative approach, which requires better training to understand the small-business customer segment and to leverage technology to analyze usage patterns, predict future needs, and make customized recommendations. As stated previously, small-business needs continue to evolve, and banks must understand current needs and stay one step ahead of the evolution. Table A lists some of the products for which banks have seen a large increase in demand by their small-business customers over the last two years, and it also shows how they expect demand to continue increasing over the next 24 months. Numbers shown represent average ratings provided by bank survey participants. Banks not yet offering these products and capabilities should at least be thinking about them.

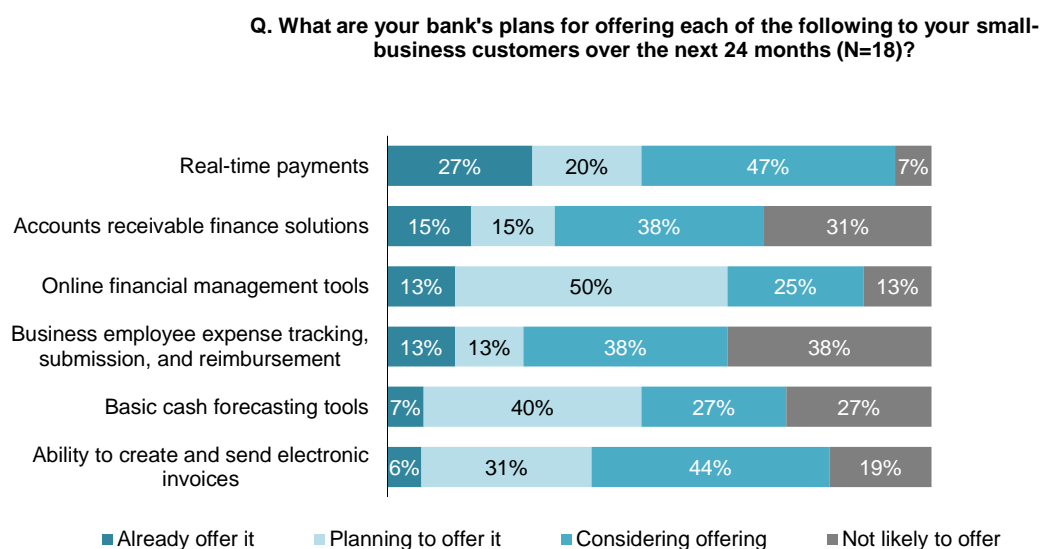
**Table A: Q. On a scale of 1 (very low) to 5 (very high), how would you rate your small-business customers' demand for each product below at each point in time?**

|   | 24 months ago | Today | 24 months from now |
|---|---------------|-------|--------------------|
| Online payments                                       | 3.5           | 4.0   | 4.3                |
| Integration of online banking with accounting systems | 2.9           | 3.9   | 4.3                |
| Mobile banking  | 2.7           | 3.8   | 4.4                |
| Mobile payments                                       | 2.4           | 3.4   | 4.2                |
| Forecasting tools                                     | 2.3           | 2.7   | 3.2                |
| Ability to create and send invoices                   | 2.1           | 2.7   | 3.4                |

Source: Aite Group survey of large and midsize U.S. banks, November 2016 to February 2017

## OFFER THE RIGHT PRODUCTS AND SERVICES

Banks face pressure to deepen relationships with their customers and to offer value-added tools that help them overcome some of their key challenges. They commonly receive complaints from their small-business customers about a lack of integrated information and inefficient accounts payable and receivable processes. They recognize that gaps exist within their product portfolios, and many have plans in place to address them. As such, many banks (40%) are planning to offer basic forecasting tools to customers over the next two years, as well as other financial management tools (50%). Almost one-third of large and midsize banks plan to offer electronic invoicing capabilities, while 6% already do (Figure 3).

**Figure 3: Plans for More Value-Added Tools**

Source: Aite Group survey of large and midsize U.S. banks, November 2016 to February 2017

Offering such tools will get customers more engaged in the channel and will get them to use more products. Seventy-six percent of large and midsize banks describe their institutions as “weak” or “average” at cross-selling products. Taking a consultative approach, as mentioned above, coupled with having a broader arsenal of the right products and services that address small-business challenges, creates more cross-selling opportunities (and thus a new potential stream of revenue) and greater potential for success. Additionally, financial management tools and products offer banks greater insight into their customers’ businesses and needs, thereby enabling them to better serve them.

## IMPLEMENT A DIGITAL-FIRST APPROACH

As banks identify new capabilities to be added to their product portfolios, a digital-first approach makes sense, given the reasons previously stated. The online channel is currently the preferred channel of small businesses, but mobile is expected to see the greatest growth over time, especially as millennial-run small businesses represent a larger share of all small businesses. Given the importance of online and mobile, user experience within digital channels is crucial; 78% of large and midsize banks state user experience within their digital channels is extremely important to their small-business customers. The remaining 22% believe it is very important. Aite Group estimates at least 40% of the 100 largest U.S. banks will deploy a new online small-business banking platform over the next two to three years. In most cases, those deployments will also include mobile capabilities.

## CONSIDER PARTNERS

For a growing number of institutions, the ability to offer new products businesses need will require partnering with fintech companies. Whereas in the past many viewed fintech companies as competitors, a growing number are now looking at partnering with fintech providers of well-designed, best-of-breed solutions as a winning strategy for their banks. At least two large banks have already announced fintech company partnerships since the beginning of 2017, and more are expected. To date, the most common products and services banks have partnered to deliver include bill payment, merchant services, small-business lending, and payroll. Over the coming months, we expect to see more partnerships in the areas of electronic invoicing, forecasting, and money management. Partnerships with fintech companies help banks appear more cutting-edge, innovative, and forward-thinking. Partnerships also enable them, through new tools, to better serve their clients.

## PRESENT THE VALUE PROPOSITION IN A WAY THAT RESONATES

Many small businesses believe their banks don’t understand their needs. Offering more products that address their challenges will help change this perception, but doing so is winning only half the battle. Clearly communicating the value and removing friction from the sales process will help banks achieve higher adoption rates and potentially generate greater revenue. Approximately 47% of large and midsize banks rate their ability to charge small businesses for banking products and services as “weak” or “extremely weak.” While price sensitive, small businesses are more willing to pay for products and services than banks often give them credit for. They have already proven a willingness to pay nonbank providers for products that banks could and should be offering. Small businesses are especially willing to pay for products and



services that help them save time, increase convenience, and automate processes to allow more time to focus on what they are most passionate about—growing their business.

Banks need to understand how their customers discover their services and think strategically about how to optimize that process using technology and training for employees. Cutting-edge institutions are exploring ways to have their online banking solutions suggest new capabilities at the point when customers most need them. For example, when a new user of bill pay initiates the process of manually adding billers to the system, a proactive offer can be presented, enabling them to automate the task through synchronization with their accounting software.

## CONCLUSION

The road to success in the small-business space is not an easy one. Customer demands are evolving at a faster pace than ever before, and the potential for untapped revenue within this segment has ramped up the level of competition. Technology is enabling banks of all sizes to compete in this space and offer the capabilities necessary to succeed. It is also arming banks with the knowledge to better understand and predict customer needs. Those banks willing to make the necessary investment, form the right partnerships, and make adjustments to their product offerings and selling strategies will reap the benefits and leave those continuing to maintain the status quo in the dust.

## ABOUT AITE GROUP

Aite Group is a global research and advisory firm delivering comprehensive, actionable advice on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We partner with our clients, revealing their blind spots and delivering insights to make their businesses smarter and stronger. Visit us on the [web](#) and connect with us on [Twitter](#) and [LinkedIn](#).

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