

Meeting Small-Businesses' Needs Through a Consolidated Offering

September 2019

Prepared for:



INTRODUCTION

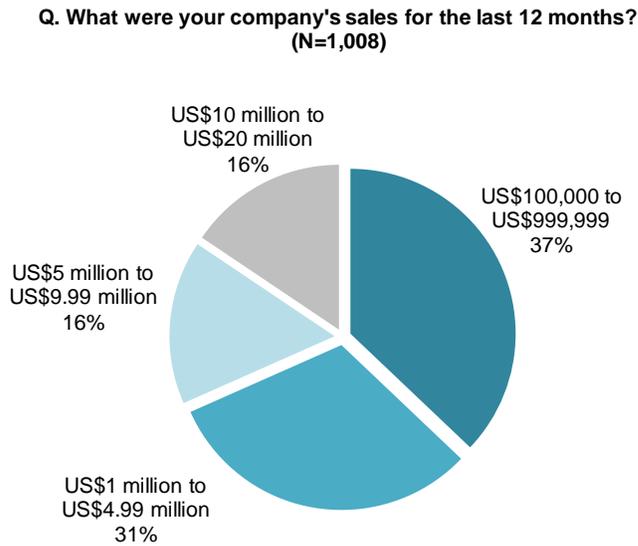
The needs of small-business customers are evolving, and traditional ways of serving them are no longer effective. A growing comfort with technology and financial applications within their personal lives is driving small-business expectations for similar user experiences and capabilities to power their business banking. Such capabilities go beyond those historically offered by their financial institutions and require new functionalities to meet their more sophisticated needs. Many of these newly sought-after capabilities, such as real-time payments and tools to help them better manage cashflows, are not yet offered by banks and can only be acquired through fintech companies. While fintech company point solutions address some requirements, a single solution rarely addresses more than one financial need. Instead, using multiple single-point solutions often results in a disjointed experience consisting of multiple logins without a single, consolidated view of their finances.

This white paper explores small-business interest in a more consolidated product offered directly by their primary financial institution that goes beyond traditional bank capabilities and more effectively addresses their new needs and expectations. More specifically, this paper analyzes demand for an integrated experience in which small businesses can better manage their finances with real-time payments, payroll, and invoicing capabilities on a single platform with the same user interface. It also highlights the key capabilities these offerings should include and how much small businesses would be willing to pay for them.

METHODOLOGY

This white paper, which was commissioned by FIS and produced by Aite Group, is based primarily on the results of a July 2019 Aite Group online survey of 1,008 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 not been included, as their actions are most likely to mirror those of consumers. A survey of this size offers a three-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 Group research of banks’ small-business offerings and strategies plus the author’s extensive knowledge of the market.

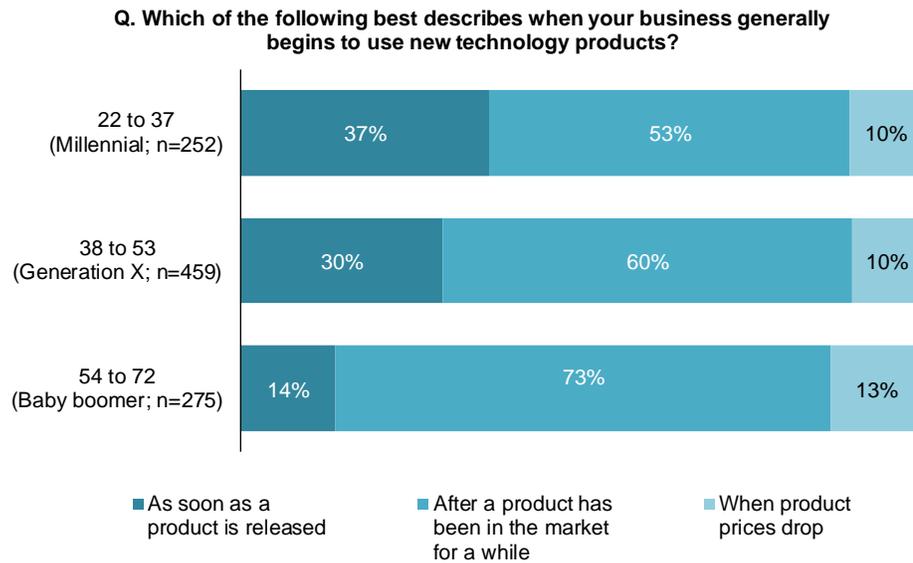
Figure 1 breaks down survey participants by their annual revenue.

Figure 1: Breakdown of Survey Participants by Annual Company Revenue

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

THE CHANGING PROFILE OF TODAY'S SMALL BUSINESSES

Today's small businesses are tech savvy, with many willing to adopt technology as soon as it is offered. The percentage is greatest among millennial- and Generation X-run businesses, which is about a third. This greater overall comfort with technology among small businesses, coupled with a willingness and expectation to use it, should signal to banks the growing need to invest in their technical architectures and digital capabilities, both online and mobile (Figure 2). Today's small businesses don't just use technology—they expect it—and the experience offered must be seamless, modern, and user-friendly, yet must be feature-rich with real-time transactions.

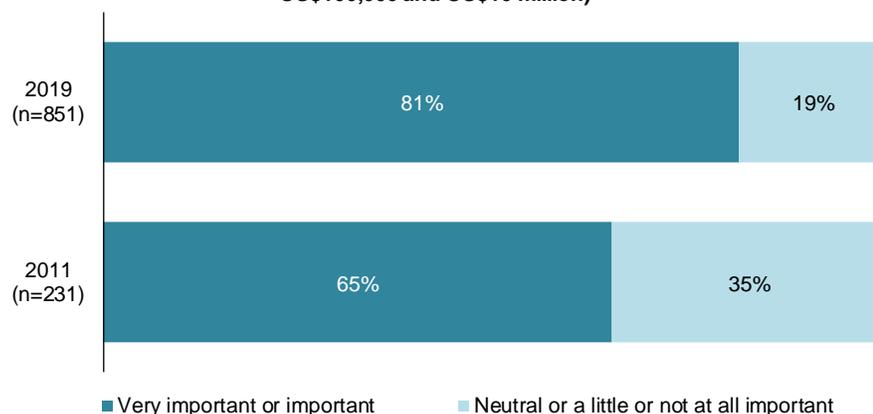
Figure 2: Speed of Technology Adoption

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

As such, emphasis should be placed on user experience, online and mobile functionality, and online account opening capabilities, on which businesses tend to place great importance when choosing their financial partners. This trend has been building over the last several years, and it will continue as the increasingly important role technology plays in one's personal life carries over to his or her business life. In fact, a comparison of Aite Group small-business survey data since 2011 shows how the importance of an institution's online offering has grown in importance as a criterion for selecting a new banking partner. While only 65% of small businesses considered robust online banking capabilities to be important or very important in 2011, 81% feel that way today (Figure 3). Thus, financial institutions failing to continuously invest in their online capabilities lessen their ability to attract new customers.

Figure 3: The Importance of Online Capabilities When Selecting a New Banking Partner

Q. Regardless of whether your business plans to switch financial institutions, if it were to look for a new banking partner, how important would an institution's ability to offer robust online banking capabilities be in its decision?
 (2011 versus 2019; among respondents working at organizations with sales between US\$100,000 and US\$10 million)



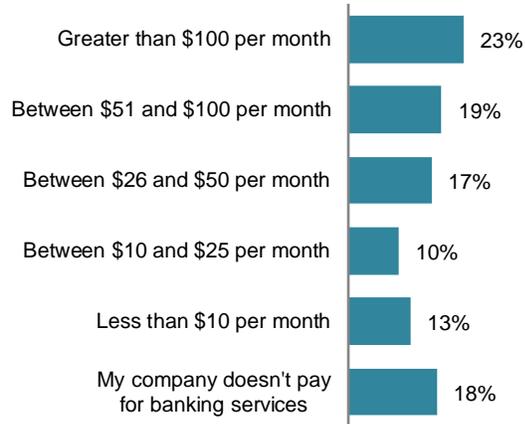
Source: Aite Group's 2011 and 2019 surveys of U.S.-based small businesses (data includes only businesses generating between US\$100,000 and US\$10 million in annual revenue)

Their comfort with technology, coupled with its importance, also makes many small businesses willing to go beyond their primary financial institution, when necessary, to have their needs met. While most would prefer having all needed financial capabilities offered within the secure walls of their financial institution, common gaps in bank product portfolios leave them little choice but to look elsewhere. Unfortunately, this has become common, as Aite Group estimates more than 60% of small businesses are leveraging a fintech company to meet at least one financial need. Three common areas in which small businesses go astray include payments (especially real-time and mobile), invoicing, and payroll. These capabilities help businesses better manage their money and operate more efficiently.

A failure to offer these often much-needed products represents missed opportunities for banks not only to better serve this important customer segment but also to generate revenue. Most banks mistakenly believe that small businesses are not willing to pay for financial products and services. While banks are right about that to a certain degree, with almost one-third (31%) paying less than US\$10 per month to their primary financial institution (including 18% that pay nothing at all), that is only part of the picture (Figure 4). It is true that small businesses are less willing to pay for basic capabilities; however, they are willing to pay for the right ones. Enhancing their product portfolios with the right capabilities can lead to new revenue streams for banks and a greater percentage of customers seeing value in their offerings. Evidence of this willingness to pay is already being seen by the large percentage of small businesses using and paying for capabilities offered directly to them by fintech companies. Unfortunately, 40% of small businesses state that their primary bank offers few products and services that their business would be willing to pay for, while an additional 35% somewhat agree.

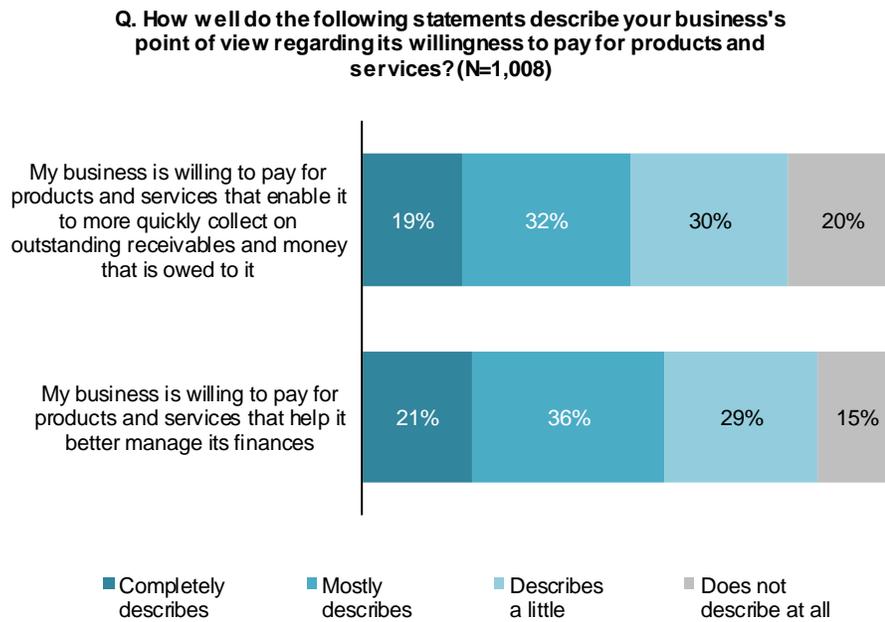
Figure 4: Small-Business Spend

Q. Approximately how much does your company spend monthly with its primary bank for making payments, using online banking, and using money management products and services (excluding loan and credit card interest and fees)? (In US\$; N=1,008)



Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Money management is one of the biggest challenges faced by small-business owners. As smaller entities, often with limited funds, come through their doors, effectively tracking cashflow and ensuring efficient collections of accounts receivable are critical to efficiently running their businesses and covering expenses. Thus, it is not surprising that small businesses show a great willingness to pay for products and services that better position them to do so. Of the small businesses surveyed, more than half state a willingness to pay for products to better manage their finances and collect on receivables (Figure 5). Banks need to offer more of these types of products and capabilities.

Figure 5: Willingness to Pay

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

A CLOSER LOOK AT WHAT SMALL BUSINESSES WANT

Small businesses often go beyond their banks for real-time payments, invoicing, and payroll capabilities. This section explores the most critical capabilities, their interest in an integrated bank-offered solution, and what they would be willing to pay for it.

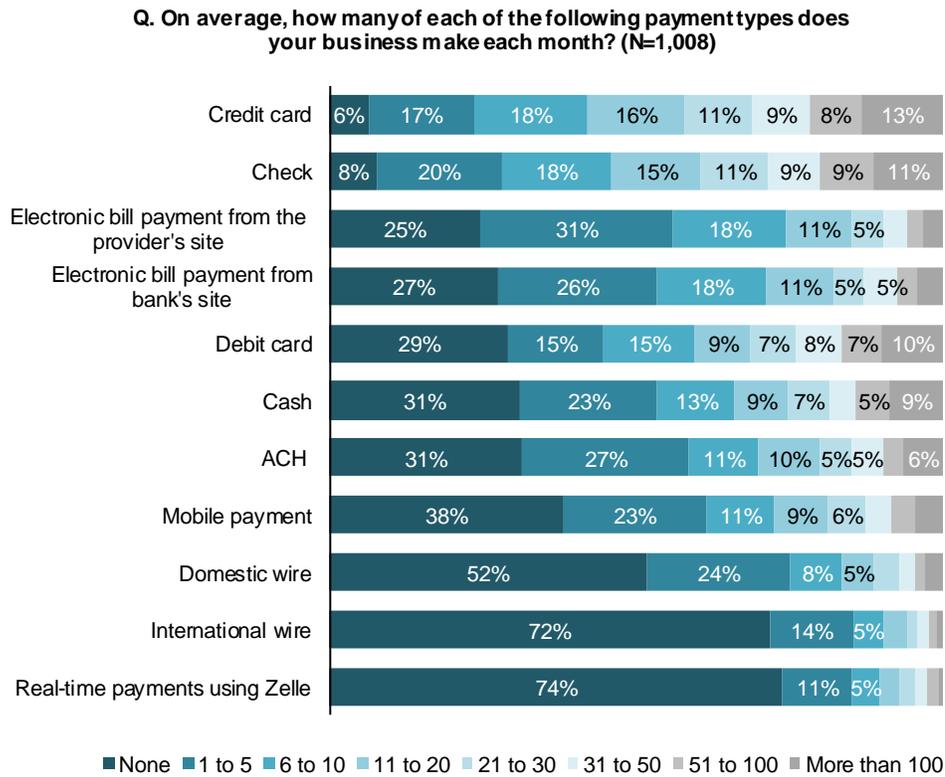
REAL-TIME PAYMENTS

The shift by businesses away from paper checks toward electronic payments continues. For ACH payments alone, the National Automated Clearinghouse Association (Nacha) reported at the beginning of this year that business-to-business ACH payments increased 9.4% during 2018 to 3.6 billion transactions, with a total dollar value of US\$34.9 trillion.¹

Among the small businesses surveyed, a wide array of payment types is utilized on a monthly basis. This trend is likely to continue as new payment types are introduced. Traditional payment vehicles, such as credit cards and checks, have the strongest user penetration, but electronic bill pay and ACH payments are also used by about two-thirds of small businesses. Use of bank-offered real-time payment vehicles such as Zelle have seen low adoption to date (less than 30%); however, growth in this area and overall interest in real-time payments are expected, especially as real-time payment vehicles become more common in our personal lives. There also tends to be specific use cases for real-time payments, with most small businesses using Zelle making less than 10 of these payments each month (Figure 6).

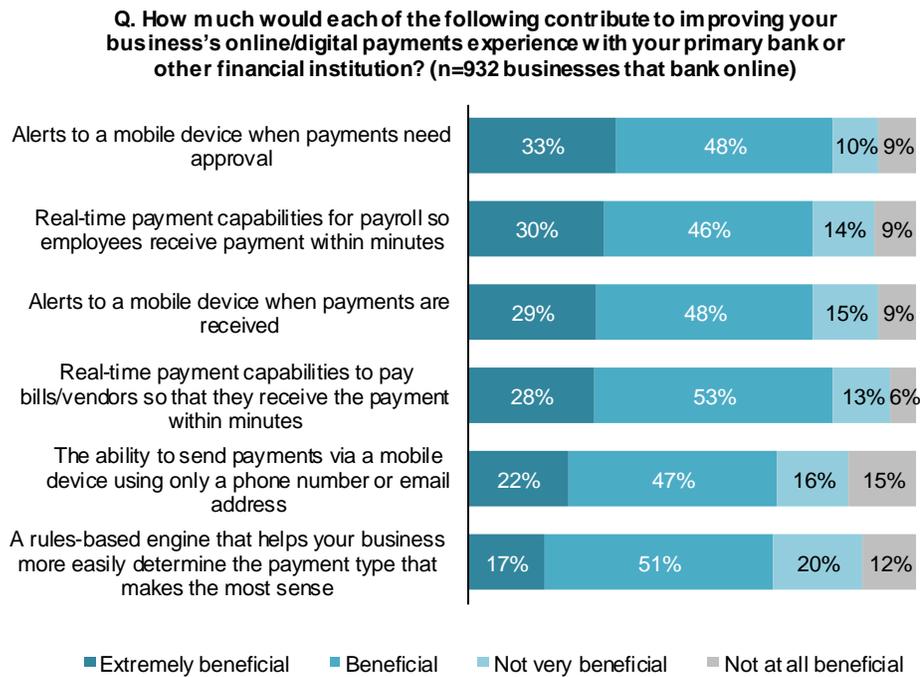
1. "ACH Network Moves 23 Billion Payments and \$51 Trillion in 2018," Nacha, February 19, 2019, accessed September 30, 2019, <https://www.nacha.org/news/ach-network-moves-23-billion-payments-and-51-trillion-2018>.

Figure 6: Breakdown of Monthly Payments by Type



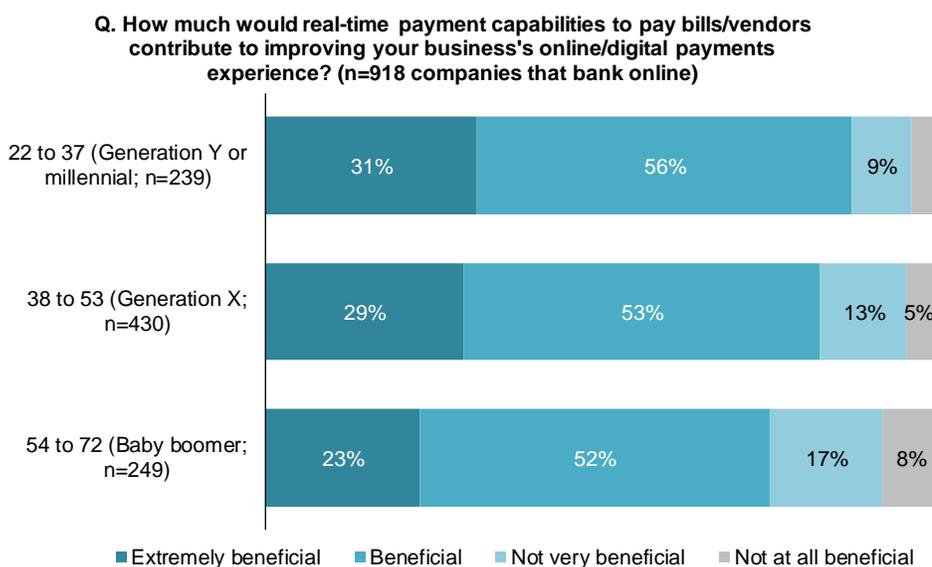
Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

As banks look to enhance their digital capabilities, it is critical that they understand those features most important to their customers. When making digital payments, small businesses want real-time capabilities and mobile access with alerts to help them more efficiently process and track their payments. Payment initiation must be easy, and with the number of payment options continuing to grow, they also want assistance from rules-based engines to help ensure they are making the right types of payments to meet their goals (Figure 7).

Figure 7: Digital Payments Expectations

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

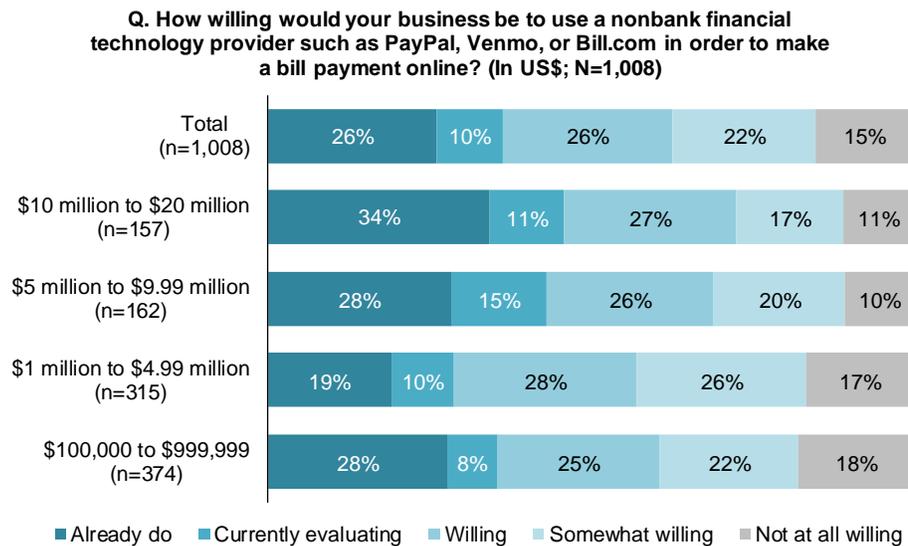
As would be expected, millennials and Generation Xers show a greater tendency to make electronic payments than baby boomers. The same is true for mobile payments, as approximately 68% of businesses run by younger generations make mobile payments, compared to only 47% of baby boomers. However, it is interesting to note that the majority of those running small businesses, regardless of generation, regard real-time payments as beneficial when paying bills and vendors. At least three-quarters of businesses, regardless of the age of the business owner, see this capability as beneficial (Figure 8).

Figure 8: Perceived Benefit of Real-Time Payments by Age of Business Owner

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Another important use case for real-time payments is payroll. In this instance, millennial- and Generation X-run businesses are more likely to see value than baby boomers. As such, 40% of millennials and 30% of Generation Xers view this as extremely beneficial, compared to only 21% of baby boomers. Such capabilities will grow in importance, especially as the gig economy continues to grow and payment upon completion of a job is expected.

Unfortunately, most banks are not offering the type of payment experience small businesses expect, thus driving them to fintech companies for better options. Of businesses surveyed, 26% already use a nonbank financial technology provider to make online bill payments, while an additional 36% are either currently evaluating or willing to do so. (Figure 9 shows the response in total as well as broken down by business size.) Similar percentages exist for mobile payments (25% and 35%, respectively). Banks must ramp up their capabilities or risk losing this critical business. Whoever owns the payment typically owns the customer, and by not effectively meeting needs, banks are leaving themselves vulnerable to attrition and disintermediation.

Figure 9: Willingness to Use Fintech Companies for Online Bill Payments

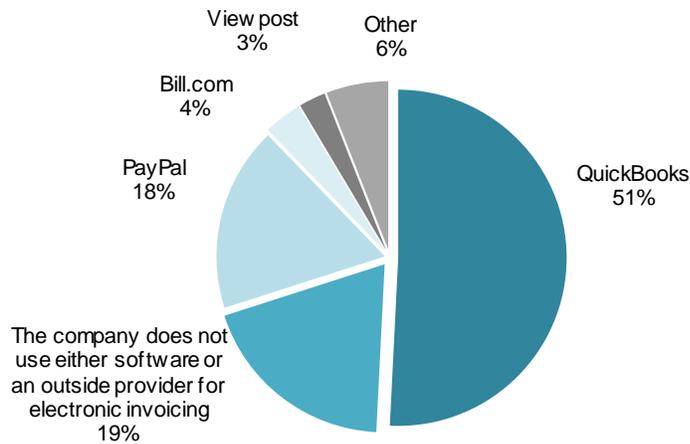
Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

INVOICING

The ability to efficiently collect money owed can mean the difference between surviving or becoming one of the many small businesses that fail each year. Further, 33% of small businesses state that collecting money owed to them is challenging or extremely challenging, while an additional 38% describe it as a little challenging. Despite its importance and the pain that collecting money owed is creating for businesses, Aite Group estimates less than 10% of U.S. banks offer capabilities that enable their business customers to efficiently send electronic invoices and collect on them. Those that do are typically the largest banks. By not addressing this need, many smaller bank customers have little choice but to rely on third-party fintech companies to fill the gap. Not surprisingly, 51% of small businesses leverage QuickBooks for such capabilities, while 18% use PayPal as their invoicing provider. Four percent and 3% use Bill.com and Viewpost, respectively (Figure 10).

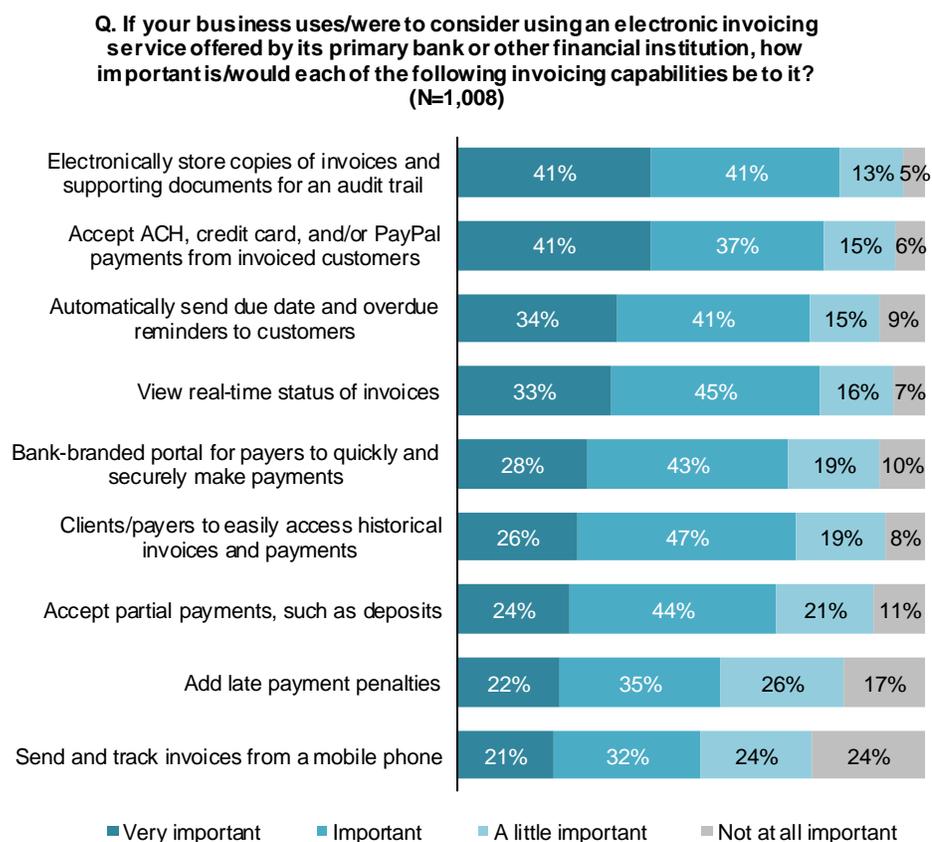
Figure 10: Small-Business Reliance on Fintech Companies for Invoicing Capabilities

Q. Which technology provider or software does your business primarily use for electronic invoicing? (N=1,008)



Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Banks, as well as their customers, would benefit from banks rolling out receivables offerings. To enjoy their greatest success from these offerings, certain functionalities are desired from small businesses, such as digital storage of paper invoices and supporting documents, the ability to accept different payment types including cards (as well as partial payments), alerts, real-time information, and mobile access (Figure 11). Tight integration with popular small-business accounting packages, such as QuickBooks, Xero, and FreshBooks, is also important to eliminate the need for inefficient and error-prone manual entry.

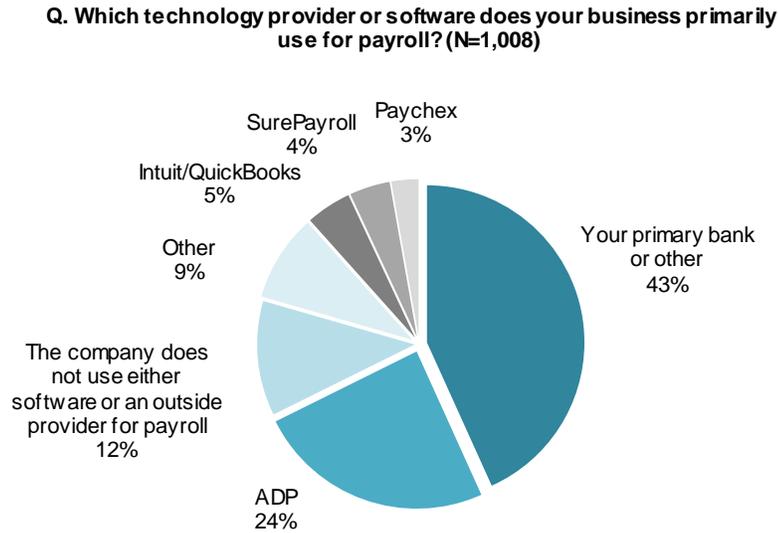
Figure 11: Invoicing Capabilities of Interest

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Most features of electronic invoicing are considered equally important across all age groups. Exceptions include the ability to add late payment penalties and to send and track invoices from a mobile phone, both of which are somewhat less important to baby boomer-run businesses.

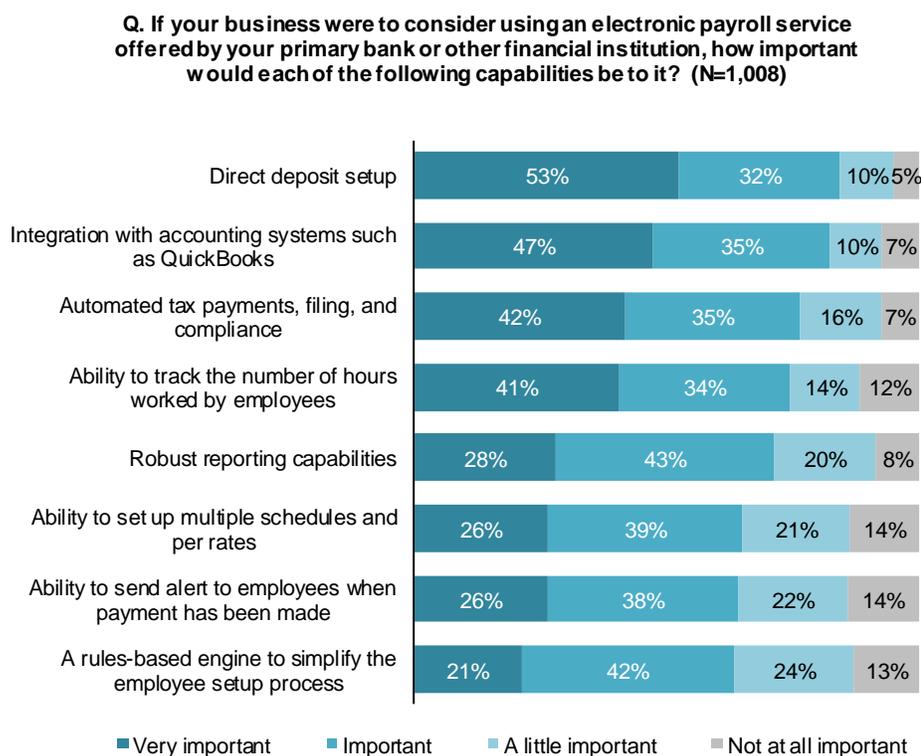
PAYROLL

The third area analyzed in this study that banks should consider making available to their small-business customers is payroll. In the payroll area, 43% of businesses name their bank as their primary provider for this function (Figure 12). However, bank offerings in this area tend to be limited, so those requiring capabilities such as tax filings, hour tracking, and alerts tend to leverage companies such as ADP, Paychex, SurePayroll, and Intuit (QuickBooks Payroll), as well as smaller players, such as Gusto. Rates and services associated with these solutions vary significantly based on size of business and complexity of needs, but most payroll vendors charge a flat monthly rate plus an additional per-employee fee.

Figure 12: Payroll Providers Used by Small Businesses

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

As banks look to enhance existing payroll capabilities or offer them for the first time, there are several must-haves for small businesses, including direct deposit set up, integration with accounting systems, tax features (such as payments, filing, and compliance), and the ability to track hours worked. Strong reporting, alerting, and guidance through wizards also help to enhance the user experience within these offerings (Figure 13).

Figure 13: Payroll Capabilities of Greatest Interest to Small Businesses

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Businesses provide mixed feedback concerning the importance of different electronic payroll features. For example, some features, such as direct deposit set up and integration with accounting systems, are seen as similar in importance by all age groups, while others, such as the ability to track hours worked and send alerts to employees when payments have been made, are seen as more important by younger decision-makers. Additionally, while businesses generating greater than US\$5 million in annual revenue are more likely to use and pay for electronic payroll services, many of the features viewed as important are similar across businesses of all revenue sizes, with the exception of robust reporting, which again is most important to those businesses generating greater than US\$5 million in annual revenue.

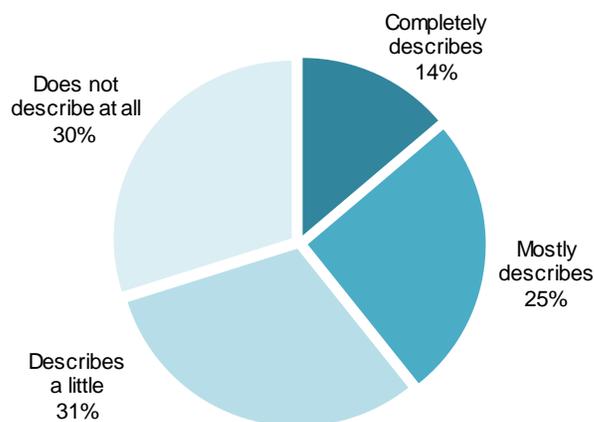
THE IMPORTANCE OF CONSOLIDATION

As stated previously, fintech company solutions are proving effective at filling current bank gaps and addressing unmet small-business needs, but their solutions often specialize in a single area. Thus, those businesses requiring capabilities in multiple areas serviced by multiple providers often have an unintegrated siloed experience with multiple logins and user interfaces. This siloed experience is not ideal and prevents the consolidated view they seek. There are also risks associated with working with emerging fintech companies or lesser-known brands. Therefore, it is not surprising that most small businesses would instead prefer their banks to form partnerships with vetted fintech companies so they can access their capabilities through the

bank's portal (Figure 14). Not only do they trust the security and viability of bank partners more than those of standalone fintech companies, but they also desire the consolidated experience a bank can provide across multiple solutions if integrated correctly.

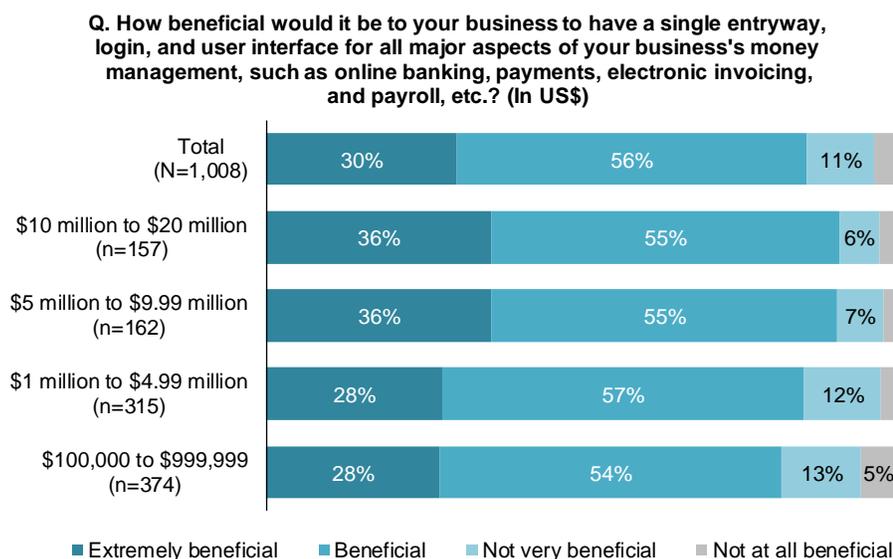
Figure 14: Desire for More Fintech Company Partnerships

**Q. How well does the following describe your business's point of view:
My business wishes its primary FI would partner with more fintech
companies to offer more innovative products and services. (N=1,008)**



Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Small businesses would benefit from having a single entryway, login, and user interface for all aspects of their business' money management, such as online banking, payments, electronic invoicing, and payroll. Small businesses agree, as 86% describe such a scenario as beneficial or extremely beneficial. Interest crosses all segments with no statistically significant difference in the results across business revenue sizes (Figure 15). Banks must leverage this advantage they have over fintech companies and benefit from the huge opportunity that currently exists for them in the market.

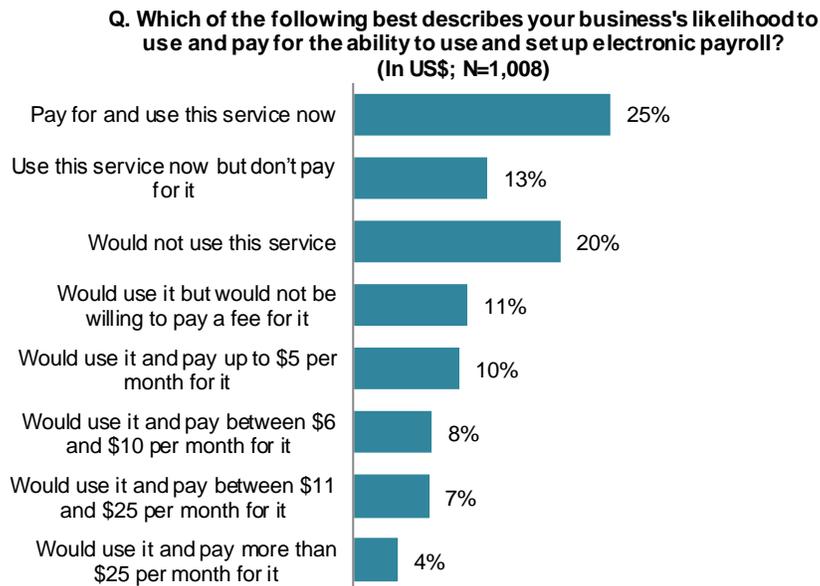
Figure 15: The Benefits of Consolidation

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Consolidating data and services into a single integrated offering provides a consolidated view of their business without having to go to multiple screens or log in to multiple systems, something that 31% describe as challenging or extremely challenging. An additional 33% find it a little challenging. The question is, will they pay for an offering that helps them overcome this challenge and address current pain points? The answer for many is yes.

THE REVENUE OPPORTUNITY

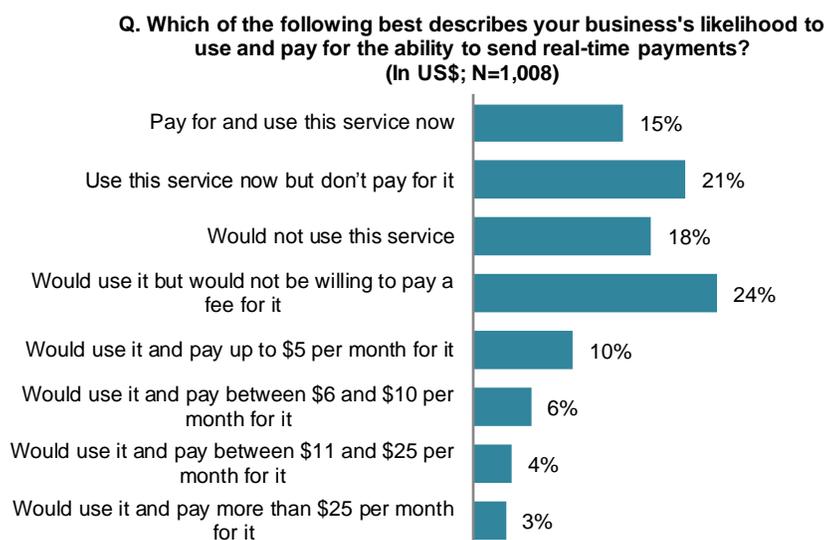
As stated previously, 40% of small businesses feel as though their primary financial institution currently offers few products and services that they would be willing to pay for. An additional 35% share that sentiment. Rolling out new real-time payments, invoicing, and payroll capabilities in an integrated offering could change that perception. It could also lead to new much-needed streams of revenue for the bank. Small businesses are willing to pay for the right products and services. They are especially willing when those capabilities meet certain criteria, such as saving them time and increasing convenience; thus, it is not surprising that small businesses are willing to pay for these capabilities (real-time payments, invoicing, and payroll). Of these three capabilities, small businesses are most likely to already be paying for electronic management of payroll. Among survey participants, 25% already pay for the service, while an additional 29% would be willing to pay for it. Of those willing to pay, most expect a monthly fee less than US\$25 per month (Figure 16).

Figure 16: Willingness to Pay to Set Up and Manage Payroll Electronically

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

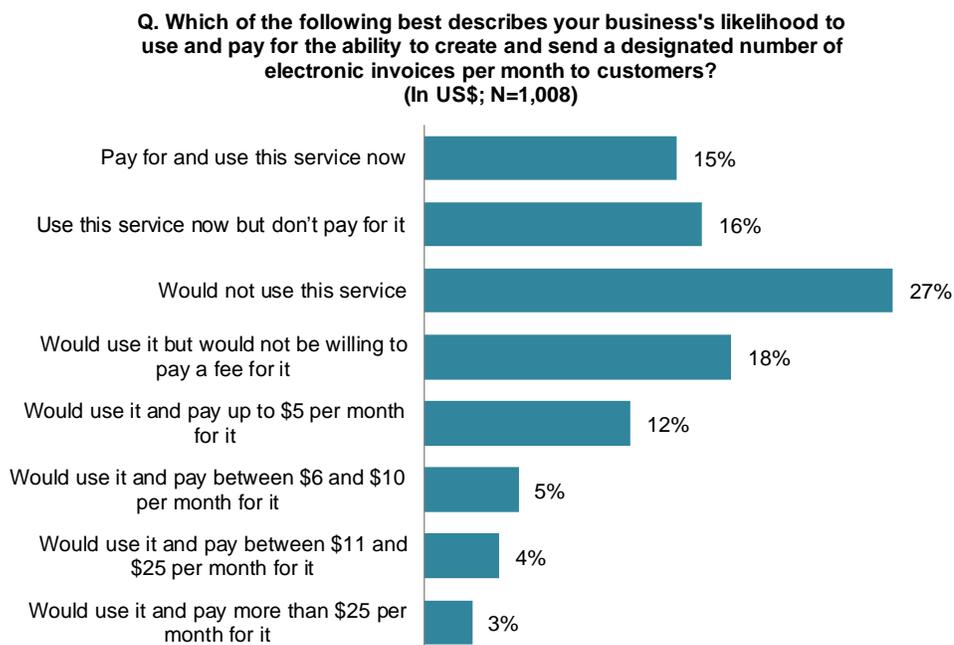
While small businesses are also interested in real-time payments, they are less willing to pay for it. Of survey participants, 21% are already using it but not paying for it. Additionally, whereas only 11% of small businesses state they would use electronic payroll but wouldn't be willing to pay for it, 24% feel that way about real-time payments (

Figure 17). This is certainly an instance in which expectations from personal lives—for which such capabilities are often offered free of charge—are impacting business expectations. Among those willing to pay, expected fees are typically less than US\$10 per month.

Figure 17: Willingness to Pay for Real-Time Payments

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

Finally, 15% of small businesses already pay for and use a service that enables them to create and send a designated number of electronic invoices per month, and an additional 24% would be willing to use it and pay for it. In this instance, small businesses again expect low monthly fees for the service (Figure 18).

Figure 18: Willingness to Pay for Invoicing Capabilities

Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

FACTORS IMPACTING WILLINGNESS TO PAY

Aite Group analysis also shows that some profiles of businesses are more likely to pay for financial products and services than others, including the following:

- Those businesses that bank with the “big four” (Bank of America, Citibank, JPMorgan Chase & Co., and Wells Fargo) and the super-regional banks are willing to pay; smaller banks have a greater tendency to give products away and attract less-profitable customers.
- Businesses working to aggressively grow are more willing to pay for services than those working toward moderate growth or maintaining current sales levels.
- Earlier adopters of technology—these businesses tend to be tech-savvy and appreciate the value delivered from automation.
- Those businesses stating that they are likely to switch FIs over the next two years are also willing to pay. This is an important point for banks to note. Those businesses most likely to switch institutions over the next two years are attractive customers that use multiple bank products, see the value of technology, and offer revenue potential.

HOW TO PRICE NEW OFFERINGS

At this point, it should be clear that small-business demand exists for new capabilities, especially real-time payments, payroll, and invoicing. Several businesses have already gone beyond their banks to attain these capabilities, but plenty of opportunities still exist to offer these capabilities to businesses that are in need but are not yet using them. It has also been shown that small businesses prefer and see benefit in a consolidated offering that many cannot get from third-party fintech companies. Those fintech companies, which tend to be small and newer players in the market, must often price their products at levels higher than what many small businesses are willing to pay in order to be profitable. All of these factors create a strong opportunity for banks to deliver an integrated platform that bundles the right capabilities at a price point that resonates with small businesses. For most small businesses, a monthly fee of less than US\$25 for each of the products aligns with their expectations. Achieving that price point will likely require a “lite” version of the offering, containing only the most critical capabilities and a limited number of transactions each month. Tiered pricing for different volume levels makes sense in this instance. Finally, when charging small businesses, flat monthly fees are often preferred over per-transaction costs, as they are easier for businesses to predict and manage.

CONCLUSION

- Banks are missing an opportunity to fulfill small-business needs and generate revenue by limiting their product portfolios to traditional banking products. Portfolios must expand to include real-time payments, invoicing, and payroll to better address current and future business customer needs and challenges.
- Fintech companies are happily and successfully filling bank product gaps but have a disadvantage in that they are often specialists in a single area and, thus, they cannot offer the consolidated product experience businesses desire. Banks should leverage their ability to do this by partnering with the right providers and integrating those capabilities within their bank portals for a single look and feel as well as a more comprehensive view of cash positions.
- Most businesses not yet using real-time payments, invoicing, or payroll capabilities are willing to pay up to US\$25 per month for these types of capabilities. “Lite” versions may be required for larger market penetration at a price point that resonates with small businesses. Client education may also be helpful in connecting price with value.
- Customer needs are evolving, and banks of all sizes must keep pace. Any bank not yet doing so risks being at a competitive disadvantage in the near term against more forward-looking institutions, thereby lowering their chances for new customer acquisition and retention.

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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