

Bank eBook

# The Banker's Guide to Owning Business Payments



TABLE OF CONTENTS

Introduction ..... 3

CHAPTER 1

Top Three Challenges in Tackling SMB Payment Pain ..... 4

CHAPTER 2

How Banks Are Evolving to Meet SMB Needs ..... 8

CHAPTER 3

Matching Products to SMB Needs ..... 12

Conclusion ..... 17

# Small and Medium Businesses Are Changing the Face of Banking

Andy and Robin Ciordia  
Bill.com clients and co-owners of The Secret Chocolatier



According to U.S. Census Bureau data, businesses with fewer than 500 workers account for 99.7 percent of all businesses, and those with less than 20 workers make up 89.6 percent. With this level of small business impact, it's no wonder that financial institutions have honed their strategies to tailor goods and services to these organizations.

Yet, banks are falling short in seeing results from this growing share of the market. It begs the question, where is the gap?

For one, today's businesses require more from financial services, as they demand solutions that simplify their business processes and mimic consumer experiences. Small and medium business leaders want solutions that address their friction points. As entrepreneurs themselves who problem-solve for their customers, they hold high customer service expectations.

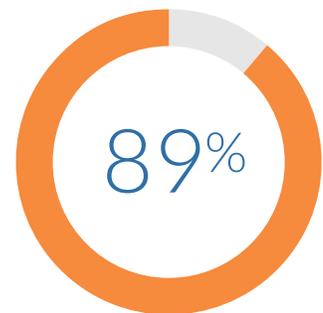
The key to winning the hearts of small businesses is to offer solutions that address core challenges and meet everyday needs through products and services that support them today and into the future.

"Passion is the common denominator for small businesses," says Jan Hoyt, Director, Bank Solutions, Bill.com. "Financial processes and payments are important for the success of every business, but they need to be in the background where they belong."

U.S. Census Bureau  
Businesses in the U.S.



>500 Workers



>20 Workers



## Chapter One

# The Top Three Challenges in Tackling SMB Payment Pain

## CHALLENGE 1:

## Underutilized Product Offerings

It's true that payments are an integral part of a business' infrastructure, and just like other operations functions, business leaders expect a seamless flow, particularly when they're on the go.

Banks understand these goals and have evolved offerings to better help today's business owners. Products like mobile remote deposit capture (RDC) extend from digital-first strategies that seek to deliver full function online banking platforms in a mobile space. These capabilities continue to emerge and adapt to changing market demands.

But research shows that even with these developments, banks' offerings stop just short of making the cut, particularly in bill payment.

"When we speak with the small businesses that are making online payments, half of them are telling us that they actually prefer to go directly to the biller site as opposed to using the offering of their bank," said Christine Barry, Research Director, Aite. "Why is this? A lot of it has to do with low levels of usability on their bank's site."



83%

of small businesses say that if their bank offered electronic payments, they would at least consider using them.<sup>1</sup>

## So, what's wrong with what banks are offering?

Focusing on bill pay, the services simply don't account for the capabilities businesses need. In particular, analysis of bank bill payment offerings reveals that they:

- ✘ Are mostly consumer-based
- ✘ Often lack entitlement capabilities
- ✘ Don't sync with accounting systems
- ✘ Rarely offer a digital view of the bill
- ✘ Don't offer collaboration, and don't enable comments to be captured and shared with multiple users and approvers
- ✘ Don't facilitate electronic payments for smaller billers and trading partners



Only 1/10 businesses using online banking are active users of bank-provided online bill pay.<sup>2</sup>

<sup>1</sup>Source: Aite Group white paper, Real Needs Demand Real Solutions: The Drive Toward Greater Small-Business Success, 2017

<sup>2</sup>Source: Aite Group survey of 1,000 U.S.-based businesses generating less than US\$20 million in annual revenue, October 2015

**CHALLENGE 2:**

# Gaps in Current Product Portfolios

This disconnect between bank product offerings and business customer needs widens with deeper evaluation.

Essentially, small business needs are becoming more sophisticated. Even the smallest business customers are starting to seek out advanced capabilities like e-invoicing and cash flow management. This paradigm shift means that small businesses now function more like larger corporates than consumers, which signals a change in how banks should consider product offerings.

To that point, Aite research shows that small businesses are already adopting enhanced financial services functionality—whether it be from their banks or other providers. Savvy bankers tune into these wants and needs to meet customer demand where it exists.

## THE SOPHISTICATED SMALL BUSINESS

### Adoption of Banking/Money Management Capabilities

(Bank and Other Third-Party Non-Bank Offerings)

SERVICE OFFERING	ADOPTION % BY SMALL BUSINESSES <sup>1</sup>
Services allowing online payments to vendors, customers, and service providers	36%
Ability to create and send electronic invoices	32%
Cash flow management	28%
Payroll processing	29%
Expense Reporting	26%
Accounts payable and receivable reporting	27%
Cash flow and sales forecasting tools	25%
Employee expense tracking, submission, and reimbursement tools	24%

<sup>1</sup>n=789

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

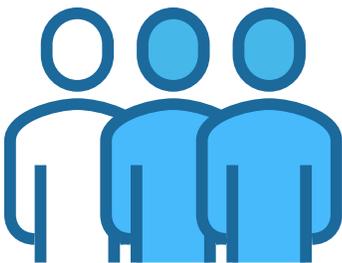
**CHALLENGE 3:**

## Negative Client Perceptions on the Ability to Innovate

Because businesses must identify and use outside services to augment their traditional banking products, they often have negative perceptions of financial institutions' ability to innovate. Many businesses point to technology providers as more likely to offer products and services that meet their needs.

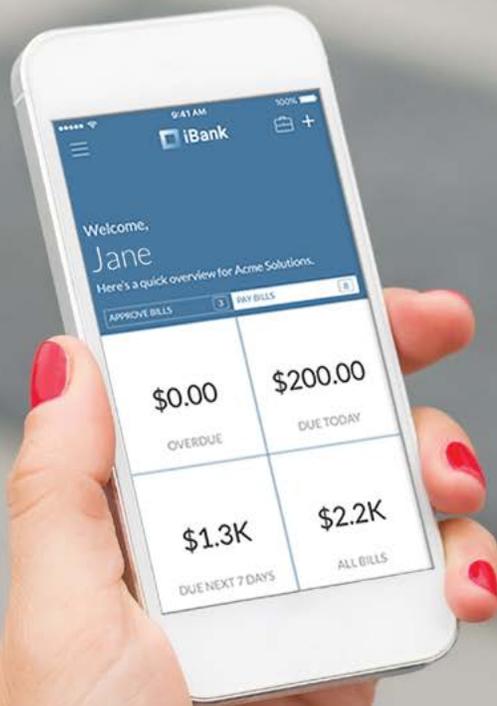
This business perception increases when speaking with millennials in particular. Millennials look at banks as being behind-the-tech-curve. This group, now the largest in the workforce, has grown up in a world of online retail behemoths and social media giants; they trust these third-parties, looking to them to provide the next wave of solutions. In fact, according to the Millennial Disruption Index, 73 percent of millennials would be more excited about a new offering in financial services from Google, Amazon, Apple, PayPal, or Square than from their own nationwide bank.

"I think banks are way behind the innovation curve," remarks Ciordia. "At some point, you stop proactively looking to your bank for support. If you think about how banks operate, the information and expertise they have, they can be doing so much more than just holding your capital. There really needs to be a change in how we view our relationship and how we're supposed to be working together to make each other better."



Almost **2/3** of small businesses completely, mostly, or somewhat believe that technology providers are more likely than their banks to offer services for which they'd pay.<sup>1</sup>

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



## Chapter Two

# How Banks Are Evolving to Meet SMB Needs

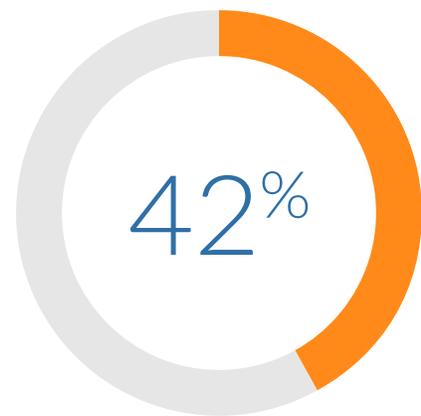
# With These Challenges Identified Banks Are Changing How They Approach Offerings

If banks are falling behind on the innovation curve, how do they catch up? One solution centers on finding the right partners.

According to the PwC Global FinTech Survey 2016, banks are the most active (42%) of all financial sectors in engaging in joint partnerships with fintechs and in setting up venture funds to fund fintech companies.

“For a long time, banks would never admit that they were partnering with other companies, especially technology vendors, but we see more and more press releases,” indicates Barry. “I think banks are looking to align themselves with some of these companies to demonstrate that they are being innovative.”

Embracing an alternative approach to innovation—like new partnerships—allows banks to be more nimble and quicker to respond to user needs. Capital One, for example, sees this as core to growing their small and medium business market share.



of banks engage in FinTech partnerships<sup>1</sup>

“It starts with our infrastructure. We, as a bank, made a strategic move to build our services on open-source platforms that allow us to quickly partner with others in the space to remain innovative.”

— ANDREA RAJ, SENIOR BUSINESS MANAGER  
CAPITAL ONE® SPARKBUSINESS®

<sup>1</sup> Source: PwC Global FinTech Survey 2016

# Banks Are Evolving Their Development Models to Account for Customer Needs

Knowing small and medium businesses want enhanced services and offering the right ones are two different things. Banks are now taking a closer look at ways they can evolve and identify the most impactful opportunities.

Determining customer needs can be tricky. It was Henry Ford that said, “If I had asked my customers what they wanted, they would have said a faster horse.” Steve Jobs famously pointed out, “A lot of times, people don’t know what they want until you show it to them.”

## So, how do banks truly know what customers want?

There’s no foolproof process, but the first step is to identify and prepare for customer needs. Banks can leverage the deep information at their fingertips to assess opportunity areas. Specifically, banks can:

- ✓ **Analyze existing customer data and identify products seeing greater demand**—Banks can better utilize analytics to recognize the products customers are using most frequently and better predict the products they are going to need.
- ✓ **Create the right product bundles**—Most banks do have plans to offer new types of capabilities; the goal is to ensure these products speak to the needs of the customer. By talking to customers and gaining their feedback, banks can develop product bundles that enhance their service offerings.
- ✓ **Leverage the needs and behaviors of tech-savvy customers and millennial-run businesses as predictors of what is to come**—While they may only represent a small percentage of total businesses today, these are the future customers, and exploring their preferences for financial services helps shape business planning for the bank.

Think about what Millennials require from banks, including:

- ✓ Modern technologies
- ✓ Evolved customer interaction methods
- ✓ More access to global banking capabilities
- ✓ Help and advice

Evaluating product offerings around these criteria helps to ensure banks truly understand today's customers and tomorrow's prospects, which guides product development now and into the future.





### Chapter Three

# Matching Products to SMB Needs

# Banks Are Eliminating the Gap Between What They Offer and What SMBs Want

As banks look to the future to design products and services, the goal is to match offerings to business needs, putting the user experience first. Yet, current research shows this may be harder than it sounds.

For example, an Aite survey of large and midsize U.S. banks showed that 38 percent do not plan to offer business employee expense tracking, submission, and reimbursement capabilities. Yet, according to Aite's small business study, a full 42 percent of millennial-run small businesses indicate they use those very offerings.

Banks are working to correct this mismatch of offering and need, creating new options designed to fit current requirements and anticipate future developments. So, while today only 6 percent of banks offer the ability to create and send electronic invoices, they recognize that SMBs expect these types of services. In fact, one-third of banks report they are planning to deliver electronic invoicing over the next two years.

Future delivery is certainly promising, but the traditional bank development cycle slows delivery, and fails to deliver on the immediacy of the business need. To counter the challenges, banks are evolving how they implement new digital solutions, identifying alternative ways to bring new small and medium business products to market more rapidly.

“We hear the need to be more digital- and mobile-friendly, and that informs our product strategy. We have an agile and scrum methodology; we do put rapid iterations into the marketplace to get feedback. We have our own user labs where we invite customers to come in, beta-test our products, and get feedback that way.”

— ANDREA RAJ, SENIOR BUSINESS MANAGER  
CAPITAL ONE SPARK BUSINESS

# SMBs are Looking for their Banks to be Digital Partners

As banks continue to focus on small and medium business strategies, the standard refrain is “digital-first,” recognizing these organizations opt for the technology that complements their on-the-go lifestyles. This is an accurate reflection of the market as 80.5 percent of U.S. small business owners report they use their mobile devices for business once a day or more.

“I’m either on the road doing deliveries, going to vendors, in the kitchen, or doing consulting for my other business, so I am a ping-pong ball around our area,” says Ciordia. “I need to be able to access my bills wherever I am.”

With that mindset permeating SMBs, banks recognize mobile access as critical to their product development plans. Today, many banks offer limited capabilities—the ability to check balances or transfer funds—but there is much more they plan to provide.

As banks build out these digital offerings, businesses expect interconnectivity across platforms. From automation that syncs mobile banking with accounting systems to entitlement capabilities that allow bills to move through approval processes digitally, businesses assume bank applications will mirror what they are seeing in other environments. In addition, when banks offer multiple channels—online, mobile, email, print, in-person—businesses presume the information and its presentation will be consistent across each. These expectations speak volumes about a truly digital business, one that doesn’t see the need for paper—or red tape—in the process.

The one thing banks can count on? As more and more digital natives grow into market leaders, these expectations will only increase.

What SMBs expect from a digital banking experience:



Similar information and capabilities regardless of channel



High levels of automation and limited/no need for manual entry



The ability to take paper out of the process



Automatic syncing to their accounting system



A user experience that closely mirrors what they are seeing outside of the bank



Entitlement capabilities

# Banks Not Only Need to Have the Right Products, They Need to Speak the Right Language

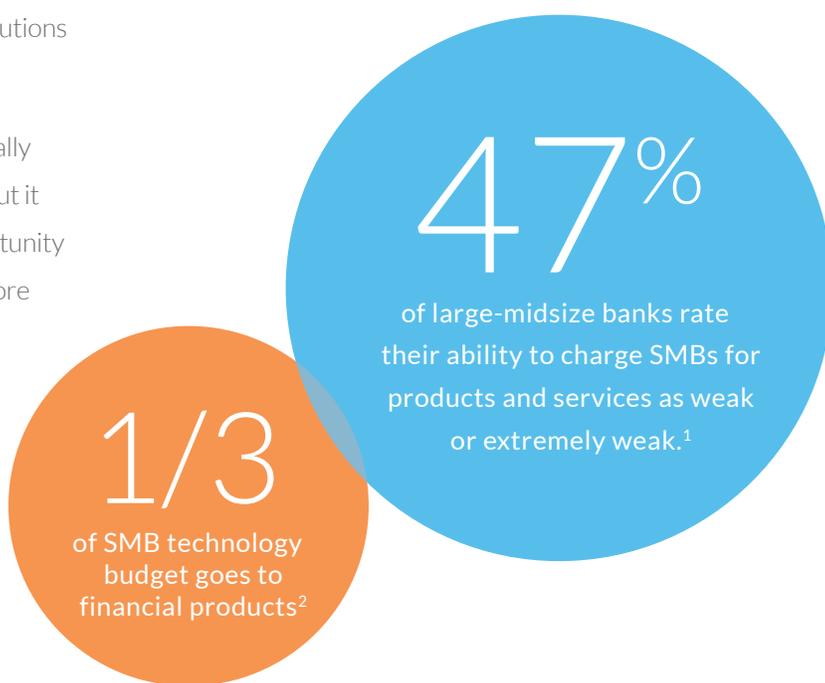
Leveraging the described digital-first strategy helps banks to develop products that meet emerging requirements. Yet, having the right products is only half the battle. Businesses still need to use these offerings.

Adoption comes down to message. Banks must speak to businesses in a way that resonates with them. Businesses have to understand the value proposition in order to adopt the technology, particularly if it's fee-based.

"It's crazy how often I hear from banks that small business aren't willing to pay for products," says Barry. "Yet, we have evidence of the fact that small businesses are willing to pay, because they're paying a lot of these fintech companies for capabilities that banks could offer. Banks just aren't effectively selling those products. They're not connecting the pain points with the solutions that they're offering."

Ciordia concurs. "Often times, I find out about a really valuable bank service by accident, when I hear about it from another business owner. There is a big opportunity for banks to connect, engage, and communicate more with business owners on how they can help solve our back-office challenges."

For example, banks can employ strategies that help them speak more to the value of their offerings. One approach involves promoting products that solve problems just as the customer is experiencing the friction. For example, in online banking, maybe the customer has just gone on to see if a bill came through. At that point, the bank can leverage its online banking portal to automatically suggest that it can sync with the business' accounting system, simplifying the process. Delivering in-context offers that solve real business problems makes it easy for the business to understand the impact and address it instantaneously. Solving the problem at the time the business has it is a very effective way of selling products.



<sup>1</sup>Source: Aite Group white paper, Real Needs Demand Real Solutions: The Drive Toward Greater Small-Business Success, 2017

<sup>2</sup>Source: <http://smallbusiness.com/selling-to-small-business/small-business-technology-trends-2017/>

# New Products and Services Must Take into Account How SMBs Want to Interact

As banks work to convey product value, they must also consider the channels they use to share that very information.

The digital marketplace continues to evolve, and technologies like Skype, FaceTime, and others have become commonplace. For example, Gartner predicts that by 2019, 20 percent of all user interactions with the smartphone will take place via virtual personal assistants, like Siri. Business owners see the potential for these technologies to simplify processes, and they want them as solutions.

Yet, adding more technology may create additional concerns. Banks are often criticized for being removed from their customers, for not engaging with or really understanding them. How does a bank balance a shift to a more technology-centric environment with a people-focused approach?

“It’s not people versus technology,” says Raj, “they both have a role to play. Capital One Café, for example, is a concept that has come to life. You can walk in and grab a Peet’s coffee, and just hang out and work, or you can talk to one of our café ambassadors. It’s a place where you can build a relationship not only with your finances, but with your bank. It is a coming together of people and technology that we believe is the key to success.”



41%

of SMBs would consider using video chat if its bank offered it.<sup>1</sup>

<sup>1</sup>Source: Aite Group survey of large and midsize U.S. banks, November 2016 to February 2017

# The Road to Success is Not Easy, but it's Time for Banks to Start the Journey

There are a lot of things banks can do to maximize opportunities in the small and medium business space, but it's not an easy road. Variables, including evolving infrastructure, shifting market dynamics, increasing competition, and growing customer demands, complicate the road ahead. Yet, there is a path to success, driven by better serving small and medium businesses. Now is the time to set out on that path. As banks sharpen their focus on small and medium business growth strategies, they should plan to:

- ✓ **Leverage technology to support emerging demands.**
- ✓ **Adjust product offerings and selling strategies to better speak to the business market.**
- ✓ **Invest—through partnerships or infrastructure—in products targeted directly to small and medium business needs.**
- ✓ **Partner with organizations who can augment and strengthen existing products and services.**

By making these changes, banks will begin differentiating themselves for small and medium businesses, and stand out from those institutions who are just maintaining the status quo.

## A Special Thank You to Our Contributors



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For more information on Bill.com® Connect, a powerful, business payments platform that places your bank at the center of your business customers' payables and receivables processes, visit [bill.com/banks](https://bill.com/banks) or contact us by filling out the form [here»](#)

## Want to learn more?

Listen in on the original webcast, featuring the Aite Group, Capital One® Spark Business®, and a small business owner as they discuss real-live business back-office pain and how banks are stepping up to save the day.

Check out the webcast, [Closing the Gap: How Banks Can Truly Own Business Payments.](#)

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