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The Critical Role Cash Flow Management Plays in Small-Business Success

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Prepared for:

INTRODUCTION

Less than half (47%) of U.S.-based small businesses believe their primary financial institution understands their needs. The result is high attrition, with 14% of small businesses stating they will definitely switch banking institutions in the next two to three years and an additional 36% saying they might. In many cases, those small businesses most likely to switch are the customers that spend the most, are tech-savvy, and are run by millennials. They are the customers banks should be fighting hardest to keep.

Much of the disconnect stems from financial institutions attempting to serve today's small-business customers with yesterday's strategies. Not surprisingly, this prevents banks and credit unions from meeting customer expectations and leads to lower-than-expected success rates. Tools to address critical customer challenges, such as managing receivables and overall cash flow, are not being offered, leaving them no choice but to look for less-efficient workarounds or to seek solutions from nonbank providers. Small businesses need their financial institutions to help them effectively manage, monitor, and collect funds coming into their business. Those institutions that do will enjoy deeper and stickier client relationships, will have greater access to deposits, and will be better positioned to serve customers' credit needs.

This white paper analyzes the need for financial institutions to provide the necessary tools to enable their small-business customers to more efficiently and effectively collect money owed to them. It highlights the types of tools and experience they value and the importance of getting paid faster. Finally, it provides insights into customer expectations that will enable financial institutions to enjoy greater success with a customer segment that has been long underserved but that represents untapped revenue potential and opportunity.

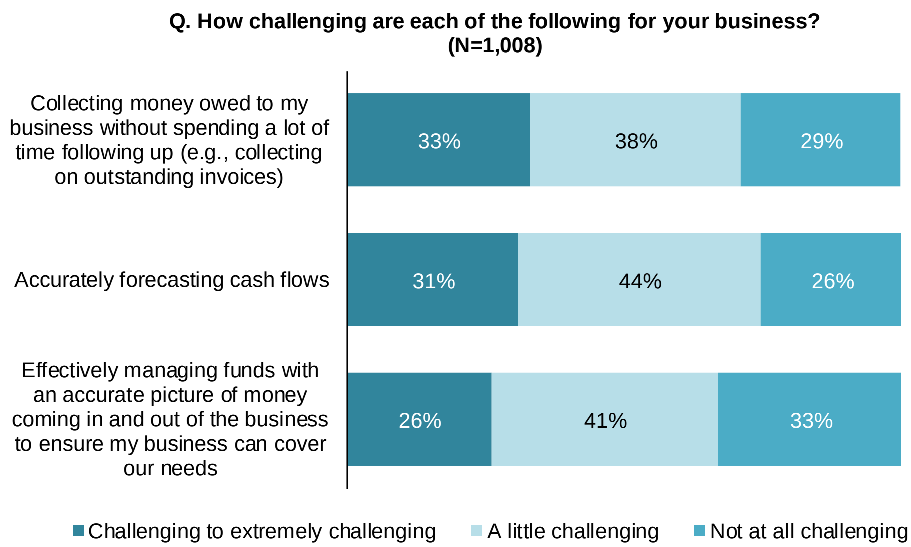
METHODOLOGY

This white paper was commissioned by Autobooks and is independently authored by Aite Group. It 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 financial institutions may define the segment, the group as a whole represents a large opportunity for banks and credit unions. 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 Group research of banks' small-business offerings and strategies and the author's extensive knowledge of the market.

SMALL-BUSINESS CHALLENGES

Many small-business challenges are overlooked and are not addressed by financial institutions. Banks have historically served small businesses from consumer banking offerings that fall short of recognizing the higher volume of transactions and money flows in and out of their organizations. While many banks have begun placing new business customers onto business platforms, Aite Group estimates at least 35% to 40% of small businesses either continue to be served on consumer or consumer-like banking platforms or are camouflaged as consumers. Unlike consumers, businesses have the added complexity of customers that must be invoiced for products and services, and inventories that must be managed and paid for. The omission of tools to effectively address these needs in banks' small-business offerings is reflected in the high number of small businesses challenged to efficiently collect money owed to them, to accurately forecast cash flows, and to easily get a clear picture of cash flow (Figure 1). Oversights in such areas could have harsh implications for small businesses, such as cash shortfalls or, even worse, the business eventually ceasing to exist.

Figure 1: Key Small-Business Challenges



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

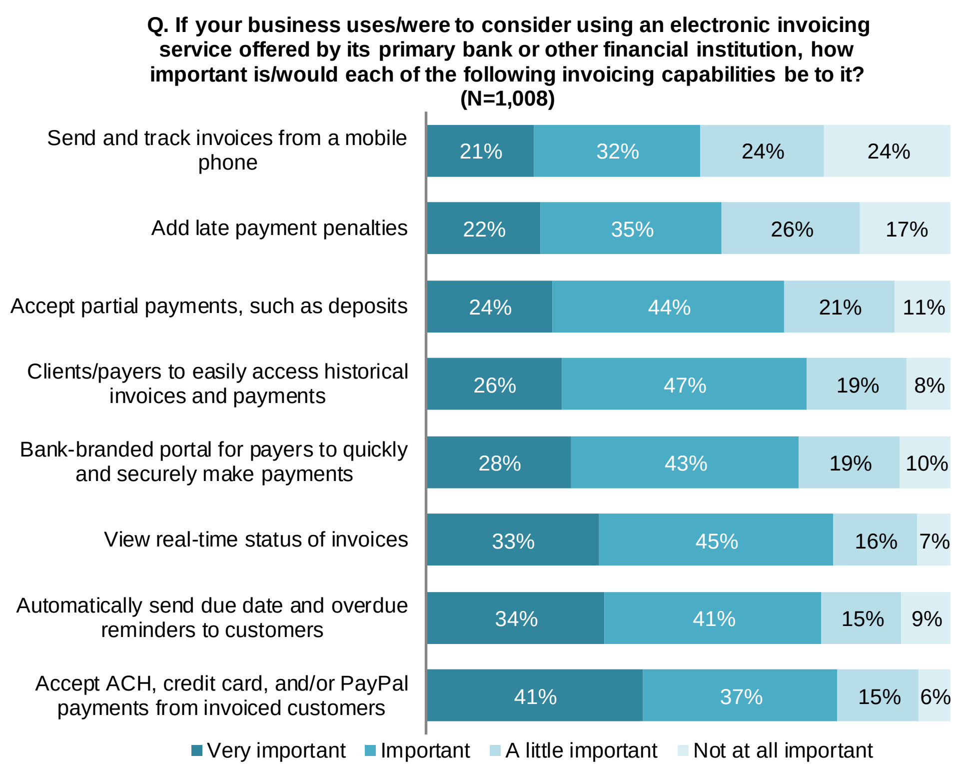
The lack of available tools has led most small businesses to become dependent on manual processes and applications, such as Microsoft Excel, to track their cash and consolidate information. Manual processes are error-prone and inefficient, thereby taking time and resources away from what is most important—growing their business. Aite Group estimates that more than 70% of small businesses are more dependent on Microsoft Excel and other manual spreadsheets than they need to be.

Further, more than 60% of small businesses are going beyond their bank to a nonbank provider to meet at least one financial need to fill gaps in bank offerings. Most do so out of need rather than preference, as small businesses believe banks have an advantage in areas such as payments processing when it comes to the ability to meet needs in a single location (59%) and in a secure environment (58%). Each time a customer leaves a banking site and goes elsewhere, it is one less opportunity for the bank to deepen its relationship with the customer and a greater chance for disintermediation.

THE IMPORTANCE OF RECEIVABLES MANAGEMENT

A small business's ability to get paid faster is critical to its capacity to maintain and grow its business. While most small businesses struggle with past-due invoices—many beyond 30 days—the average small business only has enough cash flow to cover about three to four weeks of expenses.[1] Thus, it is not surprising that small businesses see great value in having their financial institution offer them tools to more effectively and quickly collect on outstanding receivables. When asked to rate the importance of potential receivables tools their institutions could offer, small businesses attribute high value to the ability to use different payment methods, to automatically send reminders to customers as due dates approach, and to view the real-time status of invoices (Figure 2).

Figure 2: The Invoicing Capabilities Valued by Small Businesses

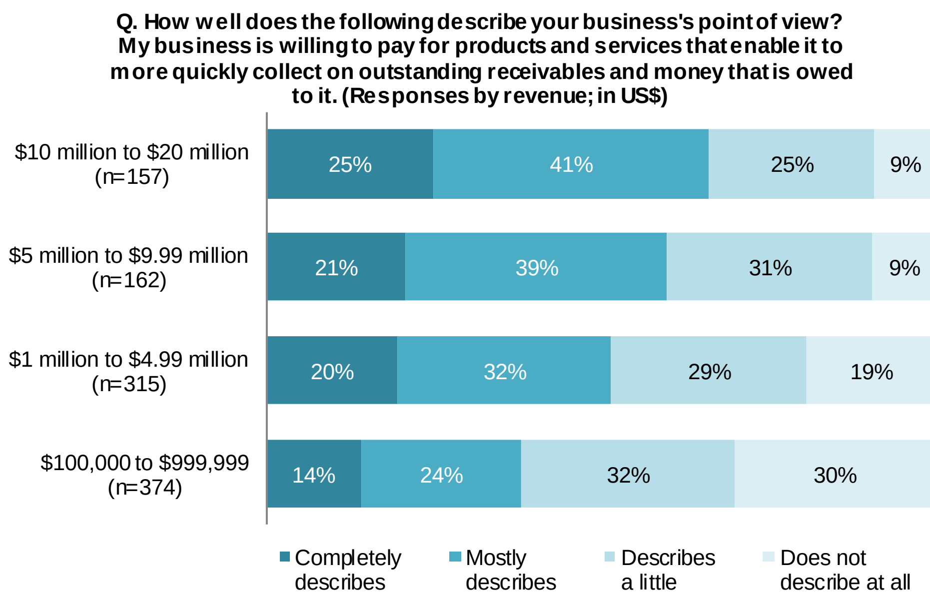


Source: Aite Group's survey of 1,008 U.S.-based small businesses, July 2019

1. Aite Group estimate based on anecdotal information as well as the following study: Diana Farrell and Chris Wheat, "Cash is King: Flows, Balances, and Buffer Days: Evidence from 600,000 Small Businesses," JPMorgan Chase & Co., September 2016.

These capabilities are not only viewed as important but are also perceived as offering the type of value small businesses are willing to pay for. A small business's willingness to pay is often based on a product's or service's ability to save the business time, increase convenience, or help it operate more efficiently. Therefore, it is not surprising that many small businesses, regardless of size, are willing to pay for products and services that enable them to more quickly collect on outstanding receivables and money owed to them (Figure 3).

Figure 3: Willingness to Pay for Receivables Tools



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

Unfortunately, despite the high levels of need and interest in such capabilities, Aite Group estimates that less than 10% of U.S. banks offer such capabilities to their small-business customers. Invoicing capabilities have traditionally only been available to larger businesses at price points and levels of complexity not suited for smaller companies. Those that have small-business offerings are primarily the largest institutions, making it difficult for regional banks and credit unions, which are already struggling to hold onto market share, to remain competitive.

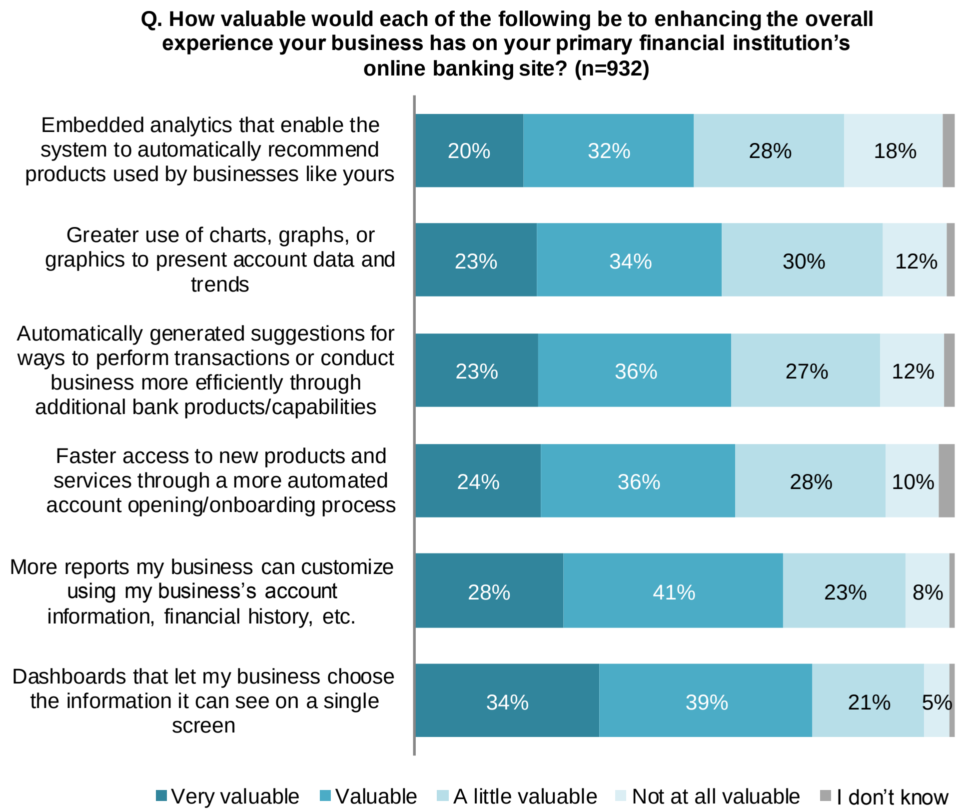
USER EXPERIENCE IS ALSO CRITICAL

While offering new capabilities to help small businesses overcome critical challenges is key to their success, banking institutions should also maintain sight of the importance of the user experience to this customer segment. In fact, while functionality is important, usability trumps functionality as a consideration when small businesses select new banking partners. Fifty-six percent of small businesses state that a bank's ability to offer easy-to-use banking capabilities is a very important consideration, compared to 40% feeling that way about robust online banking capabilities.

Despite that, the user experience within most online banking sites is not consistent with expectations businesses have as a result of using technology in their personal lives. Most small businesses find themselves facing disjointed customer experiences from their banks. As such, 31% struggle to get a consolidated view of their business's finances without having to go to multiple screens or log in to multiple sites. An additional 33% are challenged to some degree.

Instead, small businesses want ease of use, efficiency (for time savings), and a single location to manage and view their finances. They see value in user-defined dashboards, more flexible reports and graphical depictions of cash flows, greater automation, and analytics (Figure 4). Such enhancements not only improve the overall digital experience but also enable financial institutions to engage customers in a more effective way.

Figure 4: User Experience Enhancements



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

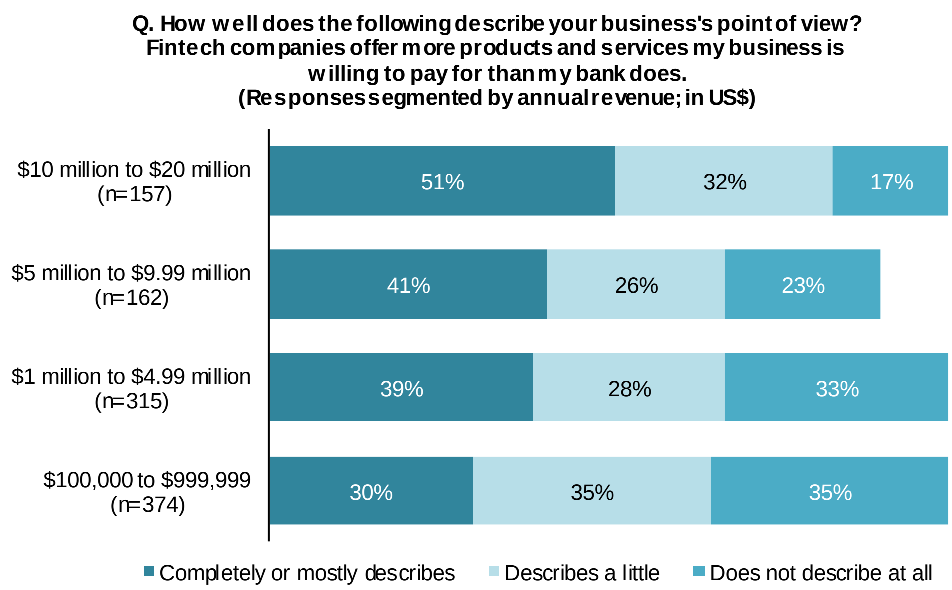
Additionally, 86% of small businesses state it would be beneficial or extremely beneficial to their business to have a single-entry login and user interface for all major aspects of their business's money management, such as online banking, payments, electronic invoicing, and payroll. Portal experiences eliminate the need for multiple logins and provide customers with the consolidated experience and views they desire.

WHAT THIS MEANS FOR FINANCIAL INSTITUTIONS

Financial institutions must evolve their strategies, product offerings, and mindset to better address the needs and challenges of today's small-business customers. However, success is not solely about adding new functionality or improving the usability of offerings. Instead, it is about engaging customers in a more meaningful way and helping them more effectively achieve what matters most—growing their business and maintaining a healthy cash flow. It requires being perceived by customers as less of a transaction provider and more of a trusted advisor and partner that offers valuable tools to help overcome key challenges and operate efficiently. Not enough small businesses view their financial institutions in this way.

Financial institutions can transition to more of a trusted partner role by becoming a part of the critical value chain fintech companies have created and expanding the definition of banking to include more cash flow tools they have not traditionally offered. Small businesses need and are willing to pay for tools that help them more quickly collect outstanding receivables. Fintech companies have not only effectively identified such gaps in bank product portfolios but have also positioned themselves as innovators—far more so than banks in the minds of small businesses. Thus, it is no surprise that 65% of small businesses believe to some degree that fintech companies are more likely than banks to offer valuable products and services they are willing to pay for (Figure 5). Banks must align themselves with innovation, or they will continue to fall short of revenue and other benchmark goals for this critical customer segment.

Figure 5: Fintech Companies Are Better Aligned With Value Than Banks



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

Partnering with fintech companies enables financial institutions to leverage the strengths they have, such as customer trust, stability, product breadth, and knowledge of financial industry regulations, while also enhancing these elements with the strengths of the fintech community. Fintech companies offer agility, innovation, and superior user experience. By joining forces, banks will be better positioned to more quickly address customer requests for more consolidated and accurate views and management of cash flow within the secure walls of the bank portal. This eliminates the need for customers to go beyond their financial institutions and instead better positions banks to deepen relationships, cross-sell additional products, and better serve and engage their customers. Most small businesses would prefer to receive financial capabilities from their financial institutions and go beyond them out of need rather than desire. Of small businesses surveyed, 70% would like to see their primary financial institution work with more emerging fintech companies to offer more innovative products and services faster within the bank portal.

Finally, in many cases, fintech companies have proven to be more successful at generating adoption and revenue from their products—more so than banks, which have a greater tendency to feel products and services must be given away for free to small-business customers. Thus, choosing the right partner may also provide financial institutions with insights into best practices, marketing messages that resonate with end users, and in some cases, even a developed program focused on bank success and product adoption.

CONCLUSION

Gaps exist in bank and credit union product portfolios, especially related to helping small businesses perform the critical task of collecting payments. Financial institutions are leaving themselves vulnerable to customer attrition and disintermediation by not quickly addressing these gaps. Fortunately, technology has evolved, making solutions designed specifically for small businesses available in the market. By partnering with the providers of these offerings and bringing their capabilities within the secure walls of their banking portals, banks and credit unions will position themselves for greater success with this important customer segment that promises untapped opportunity and revenue potential. Winning the hearts and wallets of small-business customers is no easy feat, but those that make the effort will quickly realize the benefits far outweigh the costs.

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.

AUTHOR INFORMATION

Christine Barry
+1.617.398.5040
cbarry@aitegroup.com

Research Design & Data

Judy Fishman
+1.617.338.6067
jfishman@aitegroup.com

CONTACT

For more information on research and consulting services, please contact:

Aite Group Sales
+1.617.338.6050
sales@aitegroup.com

For all press and conference inquiries, please contact:

Aite Group PR
+1.617.398.5048
pr@aitegroup.com

For all other inquiries, please contact:

info@aitegroup.com