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The Importance of Cash Flow and the Impact on Financial Institutions

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Today's agenda

- Review of December's webinar on building a business case for small business
- The relationship between cash flow and small businesses
- The disconnect between financial institutions and small businesses
- The importance of making it easier for small businesses to get paid

December webinar highlights

70+ million micro and small businesses that are redefining the needs of their banking relationship

**41 million
Independent workers**

**30.7 million
Small Businesses**

Contrary to popular belief, Quickbooks **does NOT** have “All” the businesses

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Small Business and Self-Employed Group

- Grew total Small Business and Self-Employed Group revenue 16 percent for the quarter and 15 percent for the year.
- Increased the QuickBooks Online subscriber base in the U.S. 25 percent, to over 3.2 million, and outside the U.S. 58 percent to 1.3 million, for the year.
- Increased QuickBooks Self-Employed subscribers to over 1 million this year.
- QuickBooks Capital has funded \$441 million in cumulative loans in less than two years. At the end of the fourth quarter, the net loans receivable balance was \$95 million.

Only 3.2 million

But they do need to be considered a **threat when it comes to disintermediation of business & independent workers**

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% stating they will definitely switch banking institutions in the next two to three years and an additional 36% saying they might

The Fintech Strategy to Steal The Small Business Banking Market

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Nonbank competitors increasingly dominate digital small business 'ecosystems.' Few traditional institutions have joined in. Left unchecked, the trend could threaten banks' position. Improvements in small business mobile banking capabilities indicate that the industry is aware of the challenge and striving to counter it.

Read More:

- [Gaps Grow Between Small Businesses and Financial Institutions](#)
- [Alternative Lenders Continue to Steal Business From Banks](#)
- [Don't Kill Business Banking Relationships With Digital](#)
- [Digital Is Critical For Banking Providers in The Small Business Market](#)



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Get the tools, products, financing, and support you need to help establish or grow your business – from processing payments and building a website to shipping and marketing. We even give you access to business loans* that can provide merchant funding to help you start and drive future growth.












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*Subject to eligibility and credit approval. The Lender for PayPal Business Loan and PayPal Working Capital is WebBank, Member FDIC.

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PayPal pending or holding funds: funds availability

<https://www.paypal.com/brc/article/funds-availability>

Jun 27, 2018 - Placed - A temporary hold has been placed on the funds in your account for a purchase. ... The merchant did not collect the funds within 4 days. At this time, any money that was placed on hold is credited back to your PayPal account balance. The merchant can still collect those funds at any time.

People also ask

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How long will PayPal hold my money? ▼

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How do I get my money sooner for a transaction on ... - PayPal

<https://www.paypal.com/smarthelp/article/how-do-i-get-my-money-s...>

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What to Know About PayPal Money Holding Practices

<https://www.thebalancesmb.com/.../eBay/Sell Better/Selling Questions>

Has PayPal has placed a hold on the funds your buyer paid? ... you ship quickly and that you log this quick shipment on My eBay along with a tracking number.

Several positive forces driving opportunity for FIs

Need to accept digital payments is on the rise

Small businesses would prefer to use their financial institution for cash flow management and payments

New opportunities with micro businesses

Three reasons financial institutions build a business case

Growth - Your financial institution has identified small businesses as a way to increase deposits, non-interest income, and surface new loan opportunities.

Digital - Your financial institution has made digital banking improvements a priority, and you don't feel your small business banking experience can compete with your competition (including non-bank providers).

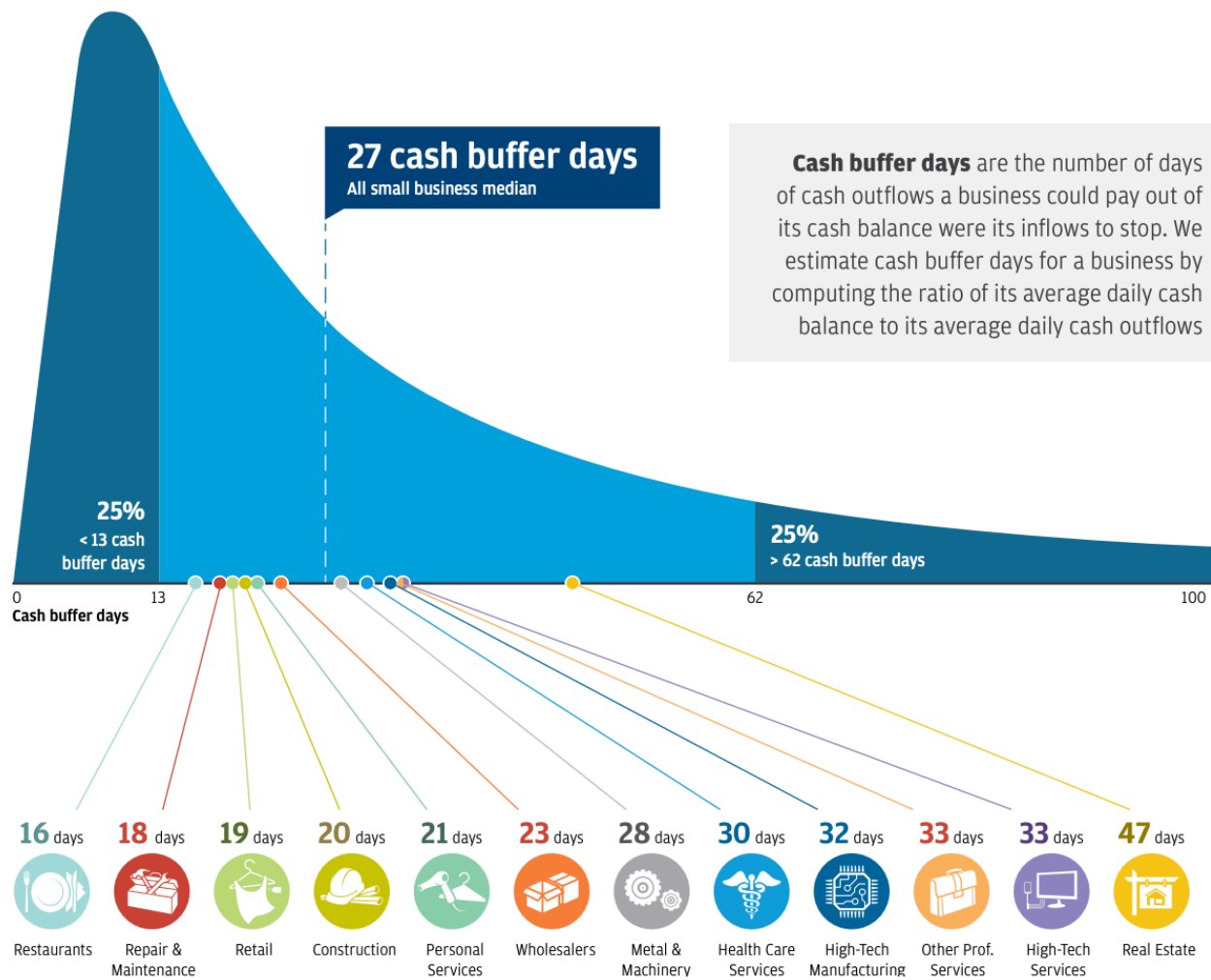
Immediate impact- Your financial institution has budget for a business banking project and needs a project that can be completed this year.

Insert webinar link

The relationship between a small business and cash flow

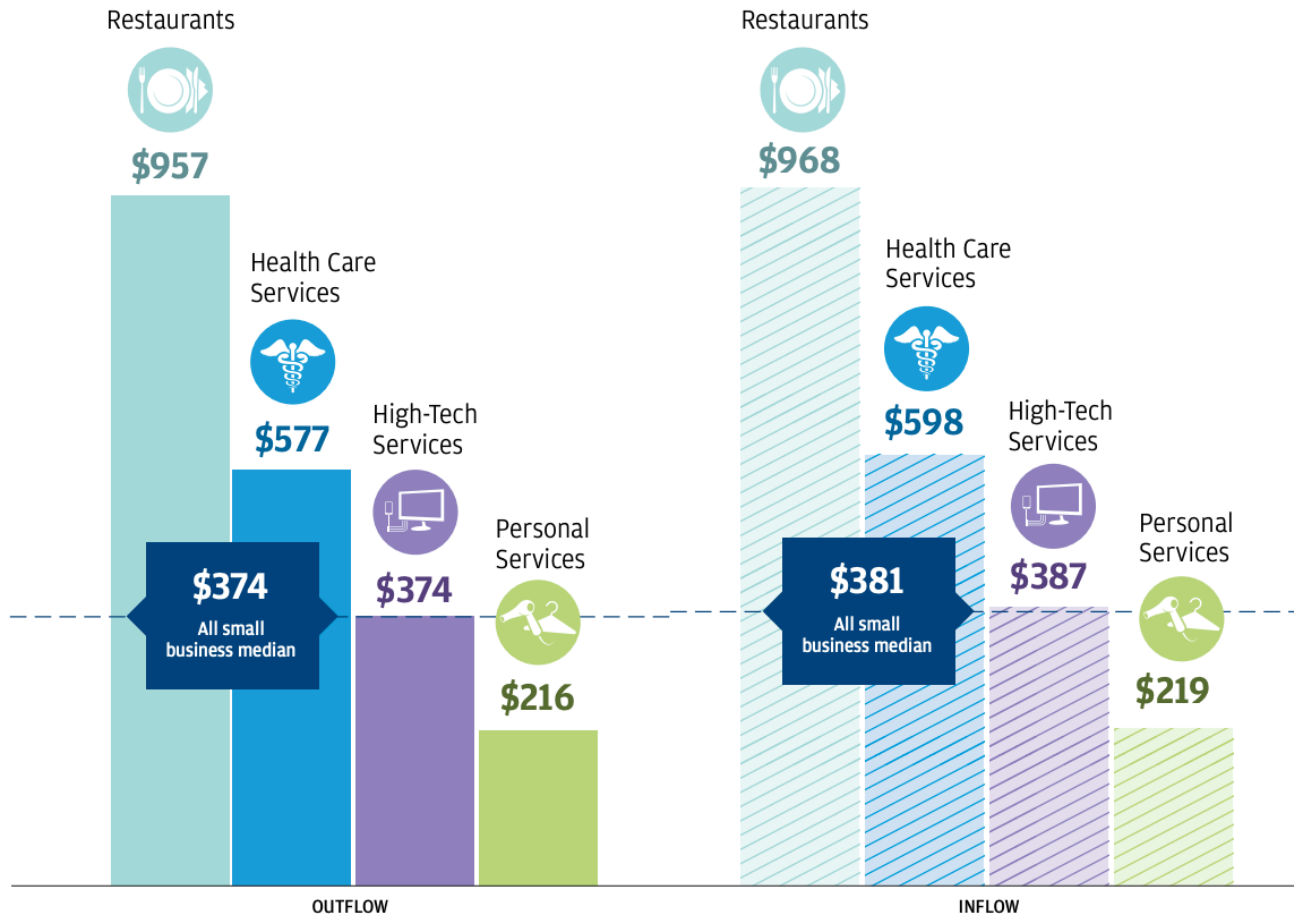
Small business failure attributed to cash flow problems

According to a U.S. Bank study, a whopping **82% of businesses that failed cited cash flow problems as a factor in their failure.**



Cash buffer days are the number of days of cash outflows a business could pay out of its cash balance were its inflows to stop. We estimate cash buffer days for a business by computing the ratio of its average daily cash balance to its average daily cash outflows





Tools small businesses use for cash flow



Spreadsheets

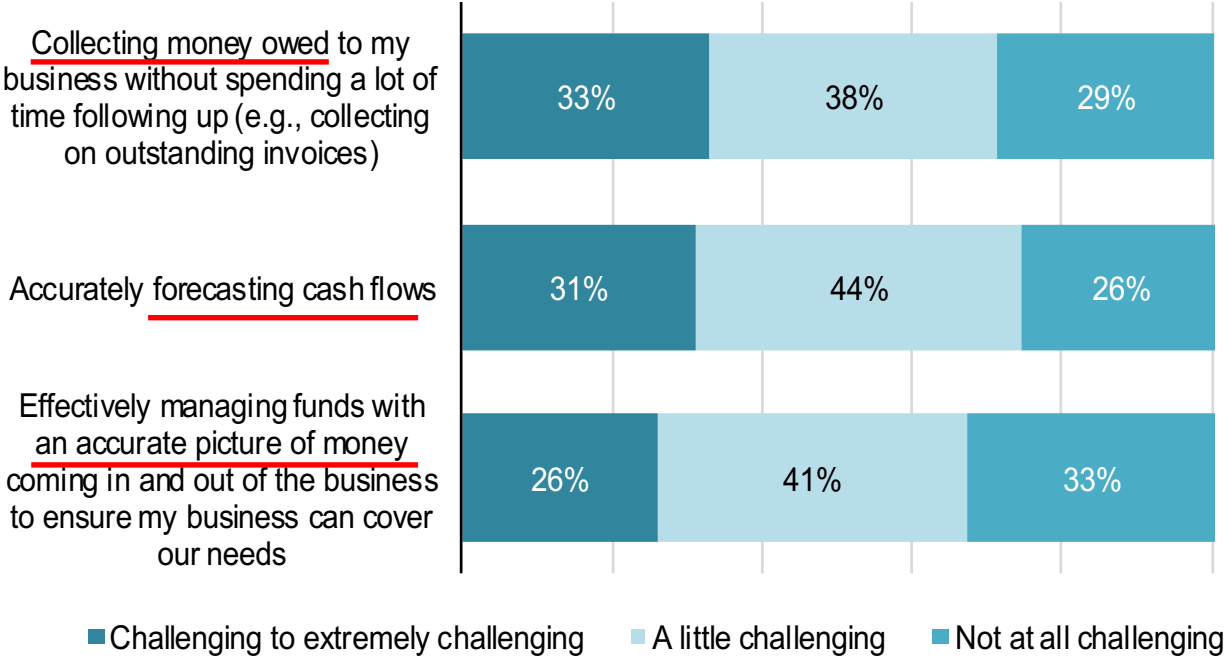


Bank Statements



Pen and paper

**Q. How challenging are each of the following for your business?
(N=1,008)**



Creating opportunity for non-bank providers

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%).

The disconnect between financial institutions and small businesses

The small business disconnect

Small businesses don't have a tailored small business experience

Financial institutions think loans first

**Financial institutions don't have a
tailored experience for small businesses**

Squeezed between retail and commercial banking

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.

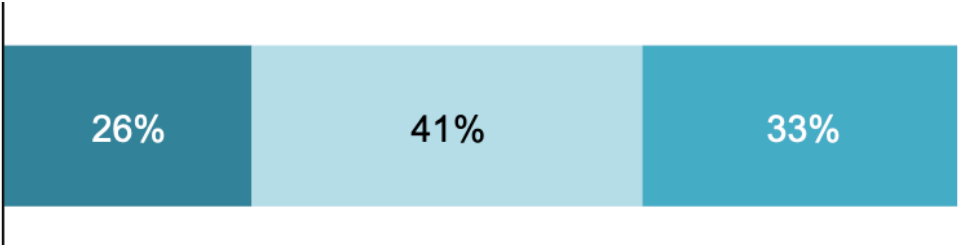
The cost of businesses hiding in personal banking accounts

The traditional lines of business in banking need a shake-up. A [survey conducted by Research Now](#) earlier this year revealed that 51% of self-employed Americans, and 32% of American small business owners with less than five employees are using personal banking accounts exclusively for their business transactions. The implications of this are huge.

1. It means that entrepreneurs aren't getting access to the tools and financing that they need to manage and grow their business. Their failure hurts the bank's bottom line, not to mention our economy.
2. It means they're looking for solutions elsewhere. Again, not great for banking profits.
3. It also means businesses are hiding under the bank's nose—up to 30% of personal account holders—and when they're ready to upgrade to more lucrative banking products or accounts, they'll probably take their, for a lack of better words, business elsewhere.

Where's the PFM for small businesses?

Effectively managing funds with an accurate picture of money coming in and out of the business to ensure my business can cover our needs



- Challenging to extremely challenging
- A little challenging
- Not at all challenging

86% of small businesses state it would be **beneficial or extremely beneficial** to their business to have a **single user interface** for all major aspects of their business' money management such as **online banking, payments, electronic invoicing, and payroll, etc.**

Business banking functionality optimized for payables, fraud, and multi-user workflows

- ACH batch management
- Wire processing
- Business bill pay
- Positive pay

Financial institutions think loans first

The loan misconception

Too many banks mistake small business *lending* for small business *banking*.

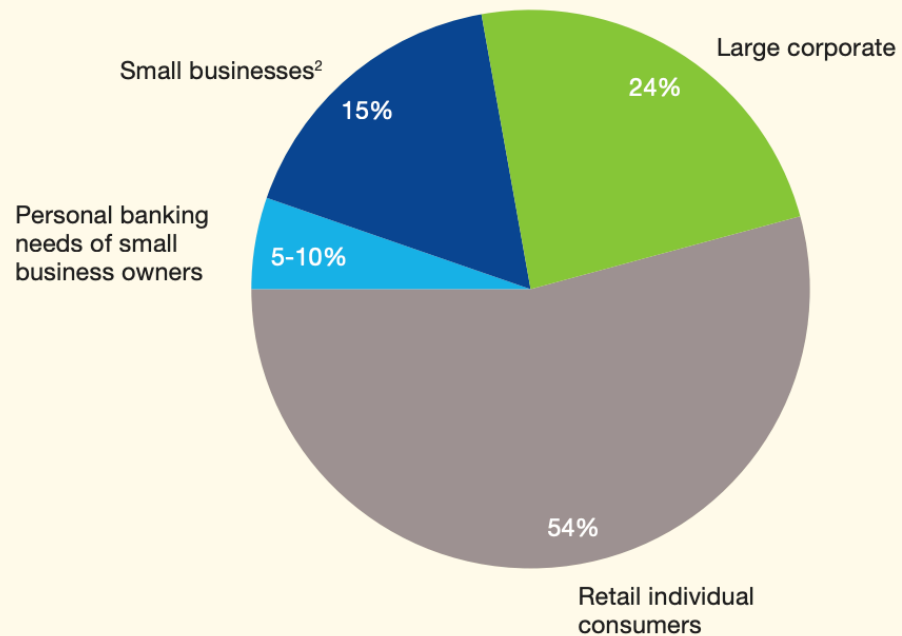
Focusing only on commoditized lending is a flawed strategy – one that the most successful disruptors have been careful to avoid.

Exhibit 1

Small businesses represent a meaningful portion of overall banking revenue pools

Revenue (fees and interest) after risk cost from U.S. credit¹ and deposits, 2011

100% = \$780 billion



¹ Net of charge-offs

² Defined as businesses with less than \$20 million in annual revenues

Source: McKinsey Global Banking Profit Pools; U.S. Small Business Association

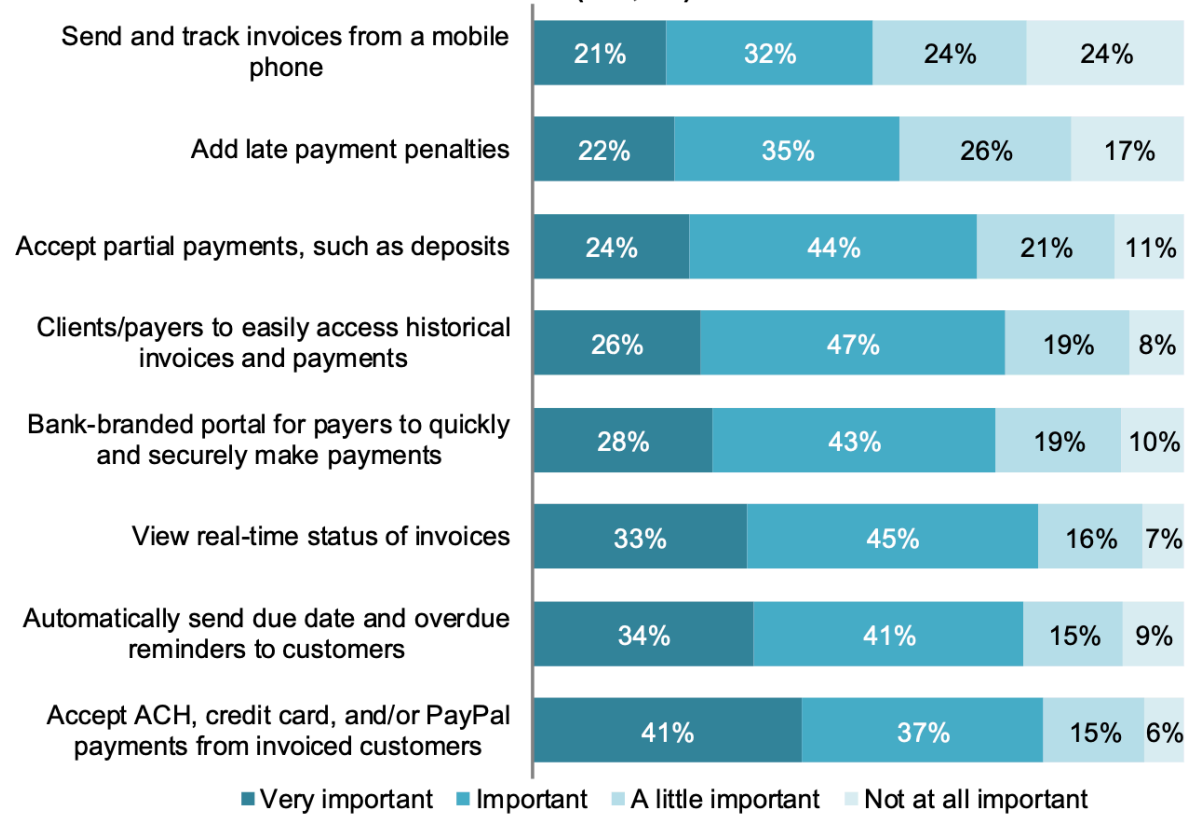
**The importance of making it easier for
small businesses to get paid**

Aite's take on the value of receivables

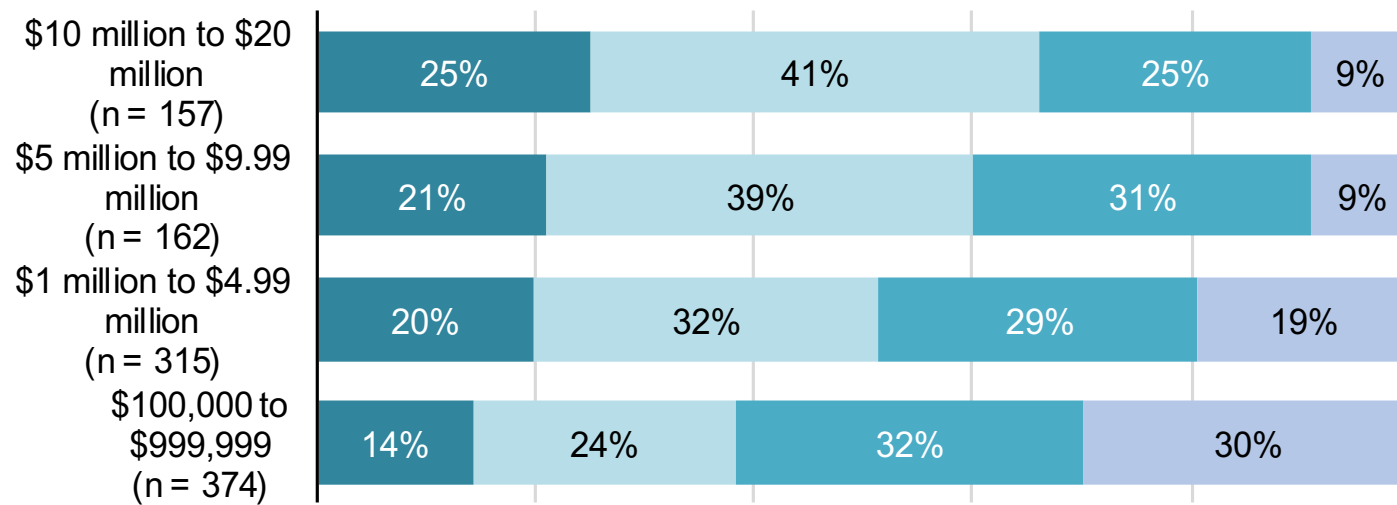
A small business's ability to get paid faster is **critical to its capacity to maintain and grow its business** because most small businesses struggle with past-due invoices, many beyond 30 days.

Figure 2: The Invoicing Capabilities Valued by Small Businesses

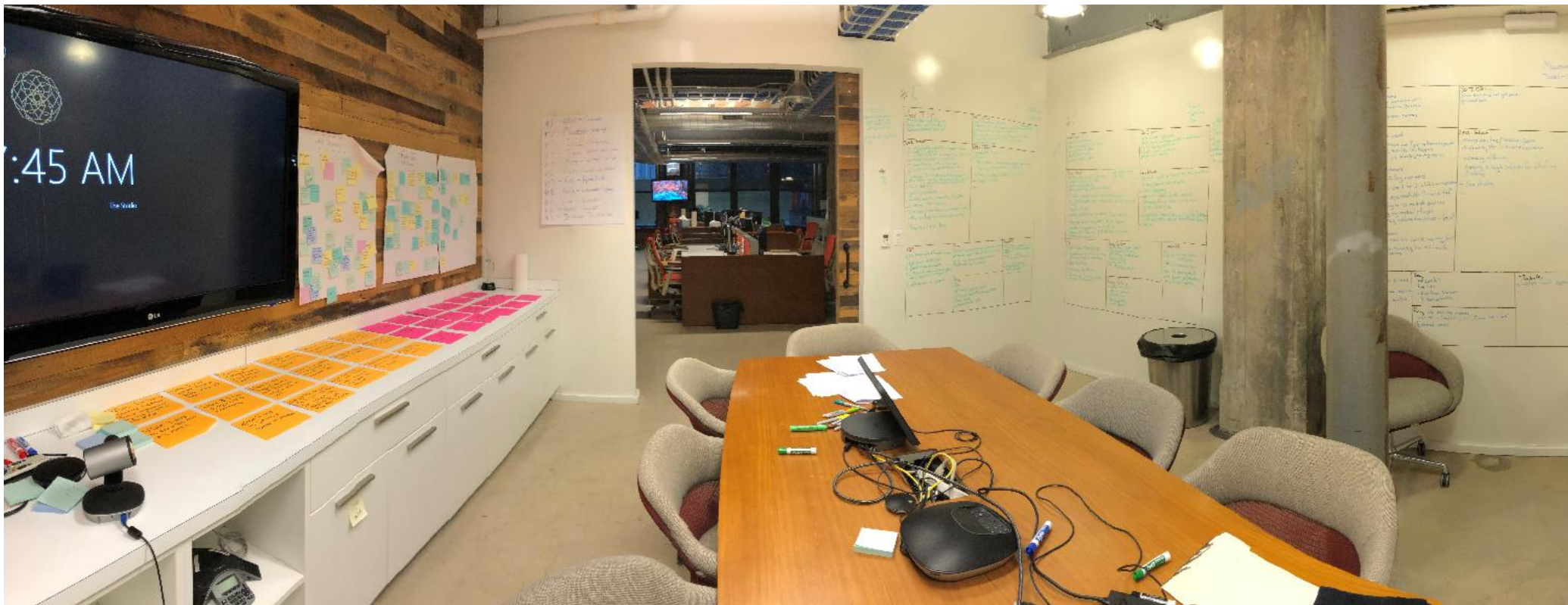
Q. If your business uses/were to consider using an electronic invoicing service offered by its primary bank or other financial institution, how important is/would each of the following invoicing capabilities be to it? (N=1,008)



Q. How well does the following describe your business' point of view: My business is willing to pay for products and services that enable it to more quickly collect on outstanding receivables and money that is owed to it.



■ Completely describes
 ■ Mostly describes
 ■ Describes a little
 ■ Does not describe at all



Uncover **Why** small businesses choose Autobooks to accept payments

Objective:

What situations do SMB owners find themselves in that causes them to struggle (*the way I'm doing things isn't working for me*), shop for something new, and finally adopt a new solution?

All-In-One

Struggle:

“I was spending hours per month dealing with all of this. So I'm manually, with Excel spreadsheets and Adobe, keeping track of all of this. And you know, some of it is in QuickBooks, some it wasn't. So I literally spent hours per month keeping track of all of this. “

Opportunity:

Remove the chaos of using multiple solutions by helping send invoices, get paid online, and track all of her payments directly within online and mobile banking.



Keep it simple

Struggle

“I think people over think their bookkeeping and I didn't want to make it a full-time job, and I guess that's what lured me to trying this, and it's worked out well for me. I'm just looking for something to keep sending my bills, something that's easy for the customers to pay online. “

Opportunity

Offer a simple solution that combines the need for getting paid online with easy to use accounting functionality.



I want personal service

Struggle

Introduced a new furniture moving service that grows quickly. He's used to creating infrequent invoices and collection checks. He now generates lots of small invoices that he's losing track of. He considers shutting the new service down after a few months.

He walked into the branch one day and a teller introduced their new small business product.

Opportunity

Offer small business owners convenience and efficiency so they can spend less time on administrative work and more time running their business.



Trusted provider

Struggle

25+ year in business and traditionally would be paid by check and cash. The business started accepting credit cards after hearing repeated requests from its customers.

Initially used PayPal for credit card, then Square, but struggled with fees and customer service issues with both.

The issues forced her to stop accepting credit cards and accepting a sub-par customer experience for a period of time.

Opportunity

Leverage the trust established in current customer relationships to offer the products and services they need to better serve their customers.



Autobooks small business learnings

Small Business Owners are **shopping for and switching** to Autobooks because of struggles related to getting paid. They're **sticking around** because we automate bookkeeping tasks, simplify the reporting that they need, and take the pain out of payroll.

Autobooks Small Business Learnings

1. Remove the chaos by proving a simple all-in-one solution
2. Keep it simple by making getting paid and accounting easy
3. Offer personal service and convenience in branch and online
4. Leverage the trusted relationship with the financial institution to engage a small business that does not trust a non-bank merchant provider



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Thank You

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