# Autobooks Guide to ROI

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autobooks



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# 1. An Introduction to the SMB Market

Cash flow is the lifeline for small and medium businesses (SMBs). They know deeply that they have bills to pay and payroll to make every month. Cash is top of mind.

The impact of the past eighteen months have only served to reinforce the importance of cash flow. As a result, an SMB's needs — especially when it comes to financial services — are quickly changing.

Many businesses, however, are not yet comfortable using modern technology. And in a way, they're in no man's land when it comes to banking. They're too small to get the attention of commercial banks. And they need more help than just a regular consumer client does. They're stuck in a problem that they need help solving.

**As the business landscape shifts dramatically to accommodate emerging buying patterns and consumer preferences — financial institutions have an opportunity to step up and serve a historically underserved market. But they must move quickly.**

## SMB Growth Drives New Opportunity

There are 31.1M small businesses (SMBs) in the U.S. today according to the SBA — a number that will only continue to rise. In addition, there are 38.2M independent workers in the U.S., almost all of whom handle their business needs through retail accounts.

The remarkable growth of new businesses — coupled with their need for payment acceptance and general financial functionality — has touched off an extraordinary opportunity for those financial institutions (FIs) that are willing to get up to speed and re-engage with a historically underserved market segment.

Prior to the pandemic, the small business market category represented a $370 billion opportunity for financial institutions. As we enter a new post-pandemic period, this opportunity will surely increase — already we are seeing a bevy of up-and-coming tech-first challengers and established megabank players jostling for position and market share.

**430,000**
new businesses registered in February 2021

**40%**
**INCREASE FROM FEBRUARY 2020**

**4.2M+**
people registered for new business applications in 2020

**25%**
**INCREASE FROM FEBRUARY 2019**

## Addressing a Fundamental Need

Financial institutions hoping to compete must first address a fundamental need based on a related but significant trend: consumers are moving in droves from in-person to online, including how they make and accept payments. To keep up, small businesses must quickly make the jump to accepting digital payments — either online or in-app.

> 82% of SMB owners have made updates to their operations to **meet the increasing demand for digital payments**.

> This figure is **up from** 67% in summer 2020, when the first Visa Back to Business Study was released.

If that's the case, the solution seems clear. Why not offer small business customers the digital capabilities they need? It would only make sense to enable customers to self-enroll online for the services they need and provide personal service only when requested. `

There is one problem: FIs, for the most part, are not prepared to help business owners make this transition because they simply do not offer these critical payment acceptance services.

It is this very shortcoming that has exposed FIs to new competition. Fintech challengers are leveraging payment acceptance as the tip of the spear to penetrate small business relationships. To further unseat the incumbent FI — and establish primacy with small business owners — these savvy competitors have tied-in new integrated financial products that are designed to keep users inside their digital ecosystems.

**THE TAKEAWAY**

**Payment acceptance has become the new version of direct deposit, offering the kind of "stickiness" that keeps small business customers coming back for more.**

## How to Regain Primacy and Drive ROI

By focusing on embedded, solutions-based partnerships, an FI can rethink a variety of legacy products that would better serve their small business customers.

**With Autobooks, an FI can quickly bring a reliable and proven solution to market.**

Autobooks enables business owners to accept online and in-app payments plus the option to upgrade the solution to include accounting and reporting for an additional monthly fee.

By offering electronic payment acceptance as a foot in the door, a financial institution can lock in primacy with small- and micro businesses as users come to rely on their FI's digital platform to manage a number of ongoing financial needs. This kind of steady usage leads to increased deposits and cross-sell opportunities, not to mention the added non-interest fee revenue streams (explained below).

Autobooks comes with pre-built integrations to industry leading core, digital banking and merchant processing solutions, making it simple for financial institutions to transform existing digital banking channels to better serve and monetize small business relationships.

For a small business owner, Autobooks offers a clear value proposition. However, for a financial institution, there are additional factors to consider. At the top of the list for any decision maker is a return on investment (ROI). Simply put: will Autobooks generate enough of a profit to offset implementation costs? And over time, will it continue to perform and attract new relationships?

**The rest of this guide will answer these pertinent questions as we delve into the small business revenue opportunity for your financial institution.**

# 2.

# Calculating Year 1 ROI

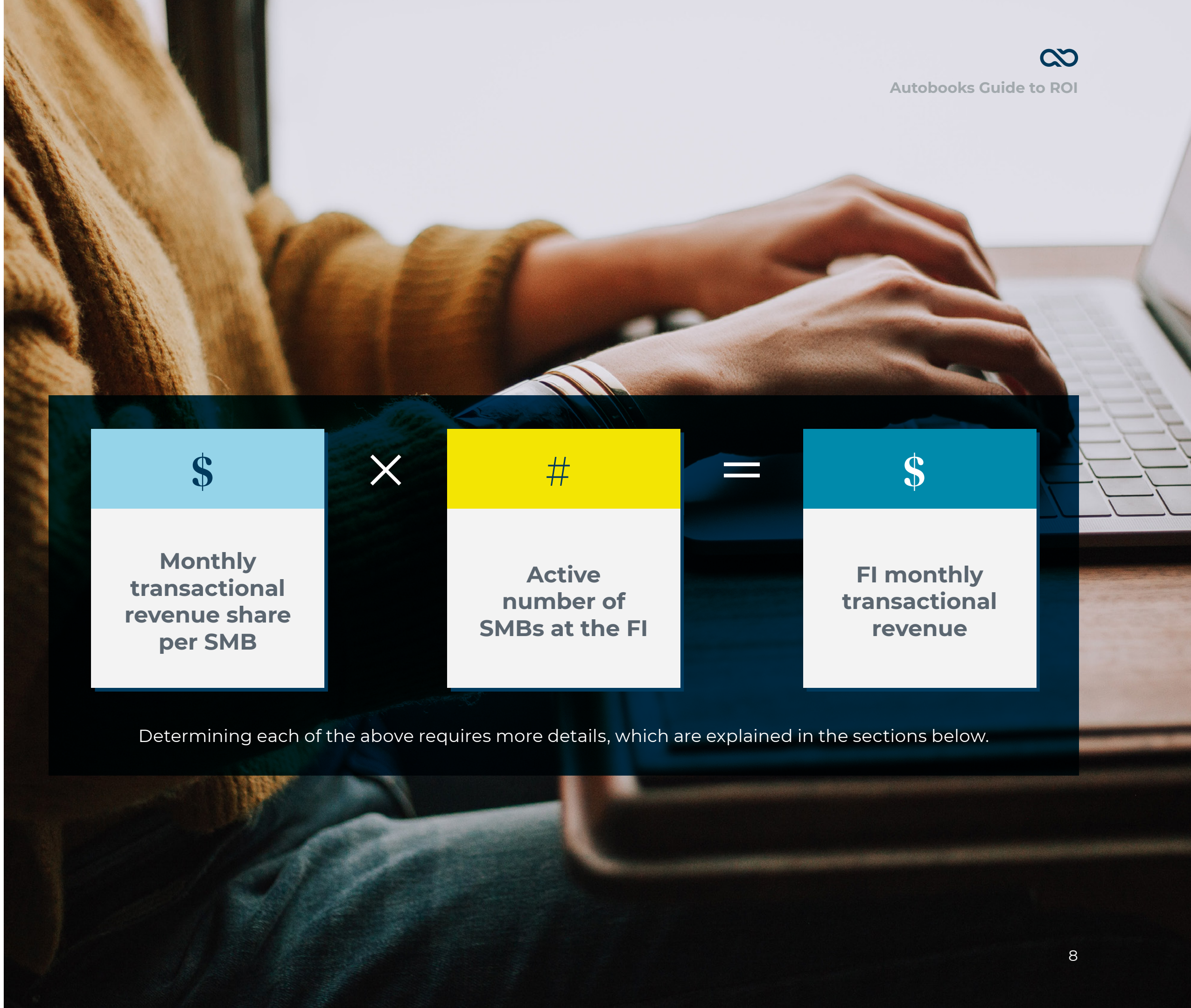
Before we delve into the details of ROI, we'll start with the basics. All business owners want to get paid. Helping them do so is the optimal starting point for any financial institution. For this reason, Autobooks is best approached as a strategic, two-step solution:

1. When a small business owner gets paid through Autobooks, the FI gets paid as well. As part of enrollment, SMBs agree to pay interchange fees on processed transactions. A portion of this transactional revenue is shared back with the FI.

2. Additionally, business owners may choose to fully manage their business back office with Autobooks: receiving customer payments, plus accounting and reporting. If a business owner opts into the full product suite, they agree to pay a monthly subscription fee in addition to the interchange fees.

# Calculating the Autobooks Transactional Revenue Opportunity

To calculate the transactional revenue opportunity for an FI, we multiply the monthly revenue opportunity per active SMB times the number of active SMBs



**$ Monthly transactional revenue share per SMB** × **# Active number of SMBs at the FI** = **$ FI monthly transactional revenue**

Determining each of the above requires more details, which are explained in the sections below.

# Calculate: Monthly Transaction Processing Revenue per Active SMB

The formula to calculate monthly transaction processing revenue per active SMB is built upon these four calculations (steps 1-4 below):

1. Total monthly processing volume per active SMB
2. Gross transaction processing revenue to share
3. Net transaction revenue to share
4. Monthly transaction revenue per active SMB

### Step 1 | Total monthly processing volume

First, let's determine the total dollar amount processed per month by an active SMB. Below are the system-wide averages, per SMB, for both number of transactions processed per month, and average dollar value per transaction.

### Step 2 | Gross monthly transaction processing revenue to share

Next, we multiply the monthly processing volume times the processing/interchange rate. This determines the gross amount of transaction processing revenue to be shared. For the purposes of this guide, we'll calculate all transactions as card transactions with a rate of 3.49%.

### Step 3 | Net monthly transaction processing revenue to share

Next, you will take the gross transaction processing revenue and subtract the estimated transaction processing costs. Transaction processing costs are based upon system-wide estimates of 75%.

### Step 4 | Net monthly transaction processing revenue for the FI

Finally, we multiply the net transaction revenue times the FI revenue share percentage.

## Monthly Transaction Processing Revenue per Active SMB

### Step 1 | Total monthly processing volume

| Avg # of monthly transactions | | Avg transaction amount | | Avg monthly processing volume, per active SMB |
|---|---|---|---|---|
| 10 | × | $650 | = | $6,500 |

### Step 2 | Gross monthly transaction processing revenue to share

| Avg processing volume per month, per active SMB | | Transaction processing rate | | Gross transaction processing revenue to share |
|---|---|---|---|---|
| $6,500 | × | 3.49% | = | $226.85 |

### Step 3 | Net monthly transaction processing revenue to share

| Gross transaction processing revenue to share | | Estimated transaction processing cost | | Net transaction revenue to share |
|---|---|---|---|---|
| $226.85 | − | 75% | = | $56.71 |

### Step 4 | Net monthly transaction processing revenue for the FI

| Net transaction revenue to share | | FI revenue share % | | Monthly transaction revenue per active SMB |
|---|---|---|---|---|
| $56.71 | × | 15% | = | $8.50 |

# Calculate: Active number of SMBs at an FI, end of year 1

The formula to calculate the active number of SMBs at the end of year 1 is built upon these three calculations (steps 1-3 below):

1. Total addressable market at the FI
2. Year 1 enrollment estimate
3. Year 1 active SMB estimate

### Step 1 | Total addressable market at the FI

The total addressable market is made up of all business accounts with a digital banking profile, plus a percentage of retail accounts with a digital banking profile.

Autobooks is made available through your digital banking channels, so it's important to only factor in account holders who use these channels. Using the totals from a core banking report may inflate the total addressable market.

According to industry reports, it is estimated that 15% to 20% of retail customers exhibit micro-business traits.

### Step 2 | Year 1 enrollment estimate

Once we've established the total addressable market, we can calculate the estimated number of enrollments at the end of year 1.

Autobooks enrollment is defined as any account holder that completed onboarding (accepted terms and conditions, completed forms, and was approved to process payments).

We assume a 5% adoption rate at the end of year one. However, this adoption percentage will be heavily influenced by the financial institution's go-to-market tactics.

### Step 3 | Year 1 active SMB estimate

Finally, let's calculate active Autobooks SMBs at the end of year one. An active Autobooks SMB has completed enrollment and actively uses Autobooks to accept customer payments.

This number differs from the total enrollment above, since not all users who enroll will consistently use Autobooks to collect payments. (Remember, your FI will receive a portion of interchange fees from processed transactions.)

Here, Autobooks suggests an activation rate of 55%, a typical number based on our system-wide data.

## Active number of SMBs at an FI, end of year 1

### Step 1 | Total addressable market at the FI

| Total number of online accounts | | Accounts that are eligible for Autobooks | | Total number of eligible accounts |
|---|---|---|---|---|
| Business Accounts 5,000 | × | 100% | = | 5,000 |
| Retail Accounts 40,000 | × | 15% | = | 6,000 |

### Step 2 | Year 1 enrollment estimate

| Total number of eligible accounts | | Estimated Autobooks adoption at the end of 12 months | | Total enrollment |
|---|---|---|---|---|
| Business Accounts 5,000 | × | 5% | = | 250 |
| Retail Accounts 6,000 | × | 5% | = | 300 |

### Step 3 | Year 1 active SMB estimate

| Total enrollment | | Payment activation rate | | Total Autobooks adoption |
|---|---|---|---|---|
| Business Accounts 250 | × | 55% | = | Business Accounts 137 |
| Retail Accounts 300 | × | 55% | = | Retail Accounts 165 |

# Monthly Transaction Revenue Samples for Business and Retail Account Types

For illustrative purposes, the samples below summarize the various steps detailed in the previous sections for the two account types — business and retail, respectively.

| | Per Business Account |
|---|---|
| Sample Monthly Transaction Revenue per SMB | $8.50 |

## Business Accounts | Autobooks Monthly Transaction Revenue Summary

| | | | | |
|---|---|---|---|---|
| 10<br>Avg # of monthly transactions | × | $650<br>Avg transaction amount | = | $6,500<br>Avg monthly processing volume, per active SMB |
| $6,500<br>Avg processing volume per month, per active SMB | × | 3.49%<br>Transaction processing rate | = | $226.85<br>Gross transaction processing revenue to share |
| $226.85<br>Gross transaction processing revenue to share | – | 25%<br>Estimated transaction processing cost | = | $56.71<br>Net transaction revenue to share |
| $56.71<br>Net transaction revenue to share | × | 15%<br>FI revenue share % | = | $8.50<br>Monthly transaction revenue per active SMB |

| | Per Retail Account |
|---|---|
| Sample Monthly Transaction Revenue per SMB | $4.58 |

## Retail Accounts | Autobooks Monthly Transaction Revenue Summary

**10** Avg # of monthly transactions × **$350** Avg transaction amount = **$3,500** Avg monthly processing volume, per active SMB

**$3,500** Avg processing volume per month, per active SMB × **3.49%** Transaction processing rate = **$122.15** Gross transaction processing revenue to share

**$122.15** Gross transaction processing revenue to share − **75%** Estimated transaction processing cost = **$30.53** Net transaction revenue to share

**$30.53** Net transaction revenue to share × **15%** FI revenue share % = **$4.58** Monthly transaction revenue per active SMB

# Adding Monthly Subscription Revenue

A portion of users may choose to fully manage their business back office with Autobooks. This would allow business owners to continue to receive customer payments, but now also gain access to accounting and reporting functionality.

If a business owner opts into the full product suite, they agree to a monthly subscription fee of $9.99. The FI receives a 33% revenue share of the monthly fee.

Autobooks estimates that 15% of your business accounts and 10% of your retail accounts will become subscribers by the end of year 1.

## Autobooks Monthly Subscription Revenue

| Total enrollment | | Subscription rate | | FI revenue share | | Total Monthly Subscription Revenue |
|---|---|---|---|---|---|---|
| Business Accounts 137 | × | 15% | × | $3.33 | = | Business Accounts $66.60 |
| Retail Accounts 165 | × | 10% | × | $3.33 | = | Retail Accounts $54.94 |

| | Business Account | Retail Accounts | Total |
|---|---|---|---|
| Total Monthly Subscription Revenue | $66.60 | $54.94 | $121.54 |

# Calculating end of year 1 monthly revenue

Now that we've established the above estimates, we can calculate the monthly revenue at the end of year 1.

**Step 1 | Total business transaction monthly revenue**

| 137 | × | $8.50 | = | $1,164.50 |
|---|---|---|---|---|
| Active business SMBs getting paid through Autobooks | | Estimated monthly revenue | | Total monthly transaction revenue from business |

**Step 2 | Total retail transaction monthly revenue**

| 165 | × | $4.58 | = | $755.70 |
|---|---|---|---|---|
| Active retail SMBs getting paid through Autobooks | | Estimated monthly revenue | | Total monthly transaction revenue from retail |

**WOULD YOU LIKE A CUSTOMIZED ROI ANALYSIS FOR YOUR DATA?**

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**Step 3 | Add the totals to the total monthly subscription revenue**

| $1,164.50 | + | $755.70 | + | $121.54 | = | $2,041.74 |
|---|---|---|---|---|---|---|
| Total monthly transaction revenue from business | | Total monthly transaction revenue from retail | | Total monthly subscription revenue | | Total monthly revenue for active SMBs – End of Year 1 |