

CELENT

REINVENTING SMALL BUSINESS BANKING PART I PACESETTERS IN EMBEDDED FINANCE SPOTLIGHT ON AUTOBOOKS

December 18, 2020

Alenka Grealish

This is an authorized excerpt from the Celent report *Reinventing Small Business Banking Part 1: Pacesetters in Embedded Finance*. Although the reprint was prepared for Autobooks, the analysis is unchanged from the original. For more information on the full report, please contact agrealish@celent.com.

CONTENTS

Executive Summary	3
A Call to Action	7
Revenues at Risk.....	7
Sharp Eye on the Platforms	9
Snapshots: Square, Stripe, Shopify, and Intuit	12
Challenger Banks	17
Action: Understand the Customer	19
Get the Big Picture.....	19
From Silos to Chevrons.....	20
Digitalization: Not the End-All Be-All.....	22
COVID-19 Impact	24
Action: Reinvent Small Business Banking.....	25
Step Change—Embedded Finance	29
Partners in workflow digitization	31
Autobooks.....	32
Path Forward.....	37
Leveraging Celent’s Expertise	39
Support for Financial Institutions	39
Support for Vendors	39
Related Celent Research	40

EXECUTIVE SUMMARY



People don't want to buy a quarter-inch drill. They want a quarter-inch hole."

Theodore Levitt, Harvard Business School, marketing professor



The banking equivalent to that statement is: Small businesses don't want to buy banking. They want their financial workflows to be easy and well-informed. They want guidance and support when they face challenging financial journeys. And they want money to finance their dreams.

The winners in small business financial services over the next decade will not look like today's banks. They will take a customer-centric approach and deliver not banking products per se but rather easier financial workflows, simple smart analytics, and actionable advice. They will embed bank products in a broader services-oriented offering. The winners will be banks and third-party providers, including big tech and fintech. Banks that rise in the league tables will have transformed their business and operating models (Figure 1). The nonbank winners will have continued leveraging their platforms and building their small business services ecosystem.

Competitors in small business financial services have grown exponentially over the past decade. Banks no longer compete among themselves but rather face an onslaught of fintech and big tech players vying to capture traditional as well as new revenue streams. 2020 marked a watershed with three platform players¹ announcing entry into the small business deposit business: QuickBooks Cash, Square Bank, and Stripe Treasury which will power Shopify Balance and other e-commerce platforms' banking offerings.

¹Platform players are tech-based companies that grow by adding product/services (including proprietary and partner-provided) to their platforms, thereby increasingly monetizing their customer base. As a result of their ecosystem approach, they excel at building APIs (application programming interfaces) and SDKs (software development kits) and at offering an app marketplace.

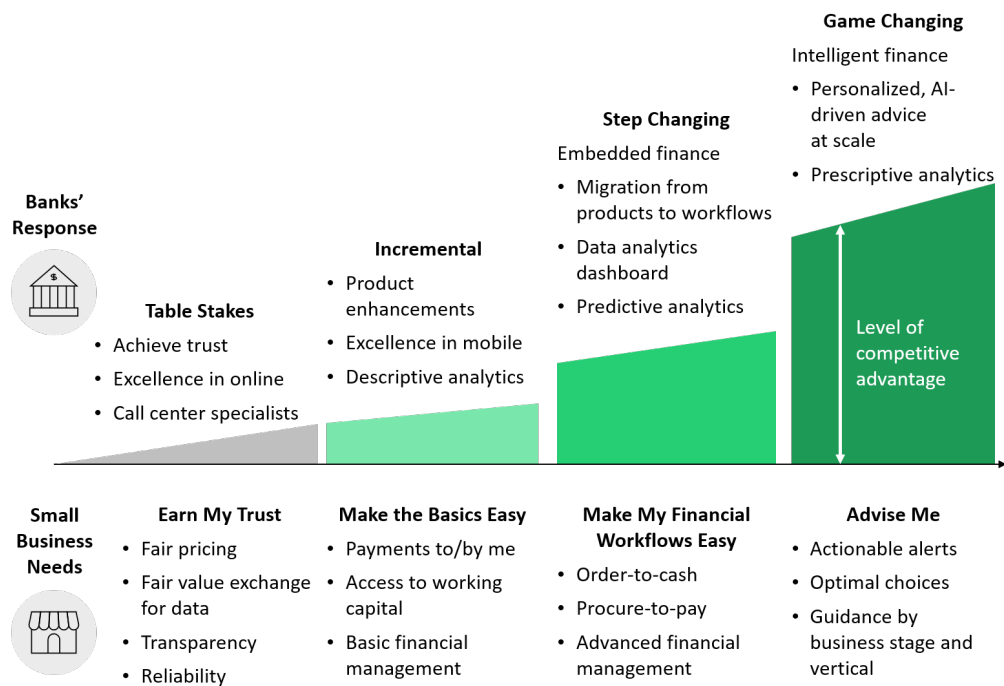
Figure 1: Reinventing Small Business Banking

	Traditional Banking	Reinvented Banking
Value Proposition		
	<p>Based on products/services:</p> <ul style="list-style-type: none"> Nearly 100% proprietary only (very limited third party products) Developed from the inside out Products in silos Low personalization 	<p>Based on embedded finance:</p> <ul style="list-style-type: none"> Ecosystem (partner-driven) model Design thinking-driven, outside-in Customer journey, workflow-centric High customer differentiation
Solutions & Channels	<ul style="list-style-type: none"> Proprietary only 	<ul style="list-style-type: none"> Proprietary channels embedded with banks' and partners' workflow solutions Partner distribution
Data Analytics & Intelligence (Customer-Facing)	<ul style="list-style-type: none"> Limited descriptive analytics 	<ul style="list-style-type: none"> Data analytics embedded in workflows Predictive and prescriptive analytics
Growth & Innovation	<ul style="list-style-type: none"> Historically, growth equated to physical footprint expansion Constrained by internal resource availability and risk aversion 	<ul style="list-style-type: none"> Digital dominates and thereby breaks physical constraints Enabled by partners
Economics	<ul style="list-style-type: none"> Price x value/volume (P x V) Spread x balance Penalty fees 	<ul style="list-style-type: none"> P x V + revenue share Spread x balance + revenue share New fee income

Source: Celent research, interviews, and analysis

To be a pacesetter in this heated competitive environment, banks must go beyond incremental change. They need to achieve step change and/or realize game-changing moves (Figure 2). Achieving step change requires banks to stop selling banking and start selling embedded finance. This translates into embedding their products into a small business's workflow and enhancing their data analytics offering with third party data. Embedded products span the spectrum of payments and credit.

Figure 2: Moving from Table Stakes to Achieving Step Change



Source: Celent research, interviews, and analysis

The \$110 billion revenue question in the US is: Will banks lead the charge or will third party providers or will a combination thereof? Celent believes the latter, a bank plus partner model, will dominate. Partners will include fintechs and accounting platforms. They will also include traditional big tech providers to banks that have partnered with fintechs. Big tech recognizes that they can enhance their solution by embedding a fintech’s service into their digital platform or by offering it through their app marketplace. Celent believes few platform players will be able to keep up with the pacesetter banks in small business financial services, particularly when it comes to high touch and when it is time to migrate a small business banking customer to a treasury services customer.

This report begins with a call to action, examining the revenues at risk and the competitive landscape, including an overview of the platform giants. The first action is to understand the customer. The second is to reinvent the bank. We delve into what step change looks like and how banks can deliver embedded finance. We profile seven potential bank partners. Five are digitizing and simplifying workflows: Autobooks, Jack Henry & Associates (JHA) (which has embedded Autobooks in several of its solutions), Bill.com, MineralTree, and FIS. Two are delivering enhanced data analytics: 9Spokes and Upswot.

This excerpt focuses on Autobooks.

This report is the first in a series on reinventing small business banking. In 2021, Celent will publish two additional reports, one on game-changing moves in small business banking and one on pacesetters in credit, which will refresh our 2017 report, *Small Business Credit: Exemplars of Innovation*.

This “reinventing” series is part of a broader library of small business banking reports, including *Digital Customer Onboarding Vendor Spectrum: Small Business Banking Edition*, January 2020. In 2021, we will publish a report examining digital banking tech vendors.

A CALL TO ACTION



Small businesses are not afraid to shop for financial services outside of banks.”

Tech vendor to banks

Small businesses have been an economic anchor for branch banking. That anchor is showing signs of slipping. A myriad of platform giants, fintechs, and challenger banks are vying to serve small businesses better by leveraging advanced technology. The nonbanks are hungry to capture value in adjacencies as growth in their core businesses slows.

It is not just about the economics, however. The importance of small businesses to the economy and social fabric has been proved time immemorial. There is consensus even among economists. Moreover, contributing to the viability and sustainability of small businesses delivers on the critical “S” in ESG (environmental, social, and governance) goals.

Revenues at Risk

The importance of small businesses to banks’ revenues is substantial. Oliver Wyman estimates that the US small business financial services revenue pool amounts to \$110 billion.² Up to 41% of that revenue pool is at risk. Using Phase 5 survey data and Oliver Wyman revenue data, Figure 3 shows \$45 billion in revenues are at slight risk, that is, the small business is not completely satisfied with their banking experience. It also shows approximately \$17 billion is at greater risk, that is, the small business stated that it is likely to switch banks.

²Includes revenues earned by nonbanks, e.g., merchant acquirers and fintechs; excludes revenues generated by small businesses earning less than \$10,000.

Figure 3: Building a Winning Small Business Bank



Source: [Phase 5](#)/Delvinia March 2020 small business survey (percent not completely satisfied; % likely to switch); Oliver Wyman revenue pool estimates.

Banks’ COVID-19 responses have received mixed reviews

COVID-19 has thrown a harsh light on the banking needs of small businesses. It also has exposed the degree to which banks do not or are not able to fully support small businesses during a crisis.

According to a small business survey by [Phase 5](#) of US small businesses June 2020: 37% are unimpressed. 30% were somewhat satisfied.

The survey also found that only 37% have received financial support (e.g., waived banking fees and deferred payment on credit lines), 32% were contacted by their bank regarding COVID-19 (of which, 66% were contacted by email, 59% by phone), but only 11% were contacted regarding how their business was faring. Only 22% received other support (e.g., telephone helplines and personalized planning).



Keep your friends close; keep your enemies closer.”

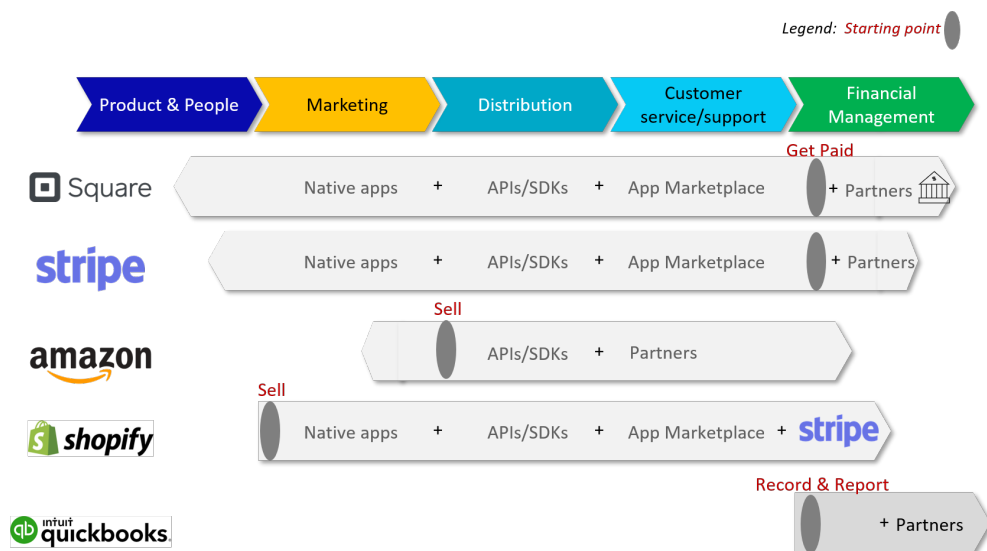
Sun Tzu, Chinese military strategist, 5th century BC

Sharp Eye on the Platforms

Banks are wise to study and monitor the platform giants targeting small businesses: Square, Stripe, Amazon, Shopify, and Intuit. These platforms are certainly aggressive in growing their small business financial services-related revenues. But banks should not feel disadvantaged. They can outperform in trust and customer service if they choose to, as discussed in the next section.

Tech giants are following a growth through adjacencies model. Whether they begin with “get paid” as a core service, such as Square and Stripe, or with “sell,” it is natural for them to add credit and deposit accounts (Figure 4). Moreover, through native and third-party apps as well as APIs and SDKs, tech giants have been able to serve nearly all the needs of a small business. Their starting point varies. For example, Square began with merchant acquiring and a dongle targeted at micro-merchants, Stripe with merchant acquiring targeted at small e-commerce merchants, and Intuit with accounting software targeted at small businesses.

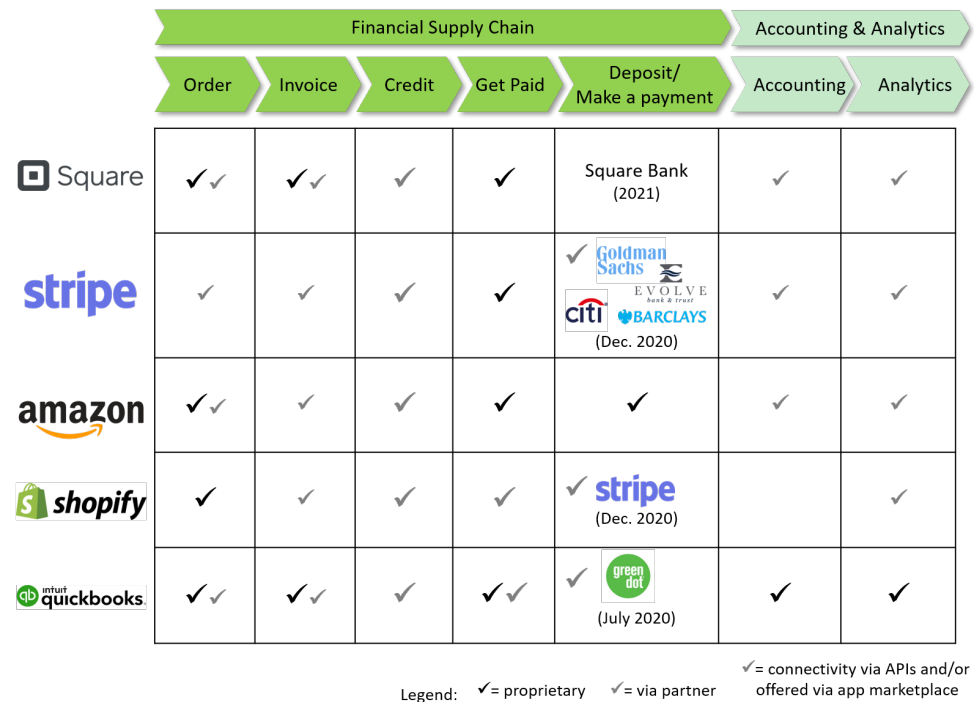
Figure 4: Platform Giants Are Spanning the Small business Value Chain



Source: Celent research, interviews, and analysis.

The platform giants have been investing steadily in serving small businesses' financial management needs as shown in their entry either directly or through an app marketplace and/or partners (Figure 5).

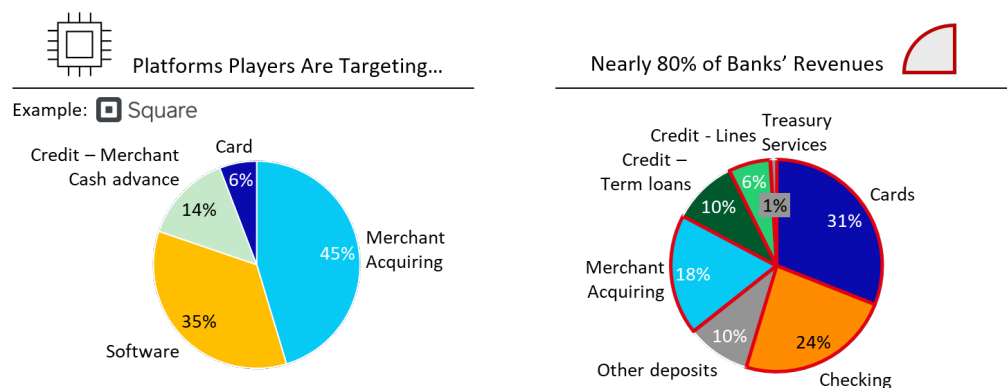
Figure 5: Platform Giants Are Capturing Small Business Financial Services ...



Source: Celent research, interviews, and analysis.

They are targeting at least 80% of the small business banking revenue pools. Figure 6 shows Square's revenue pools as a proxy for platform players' pools compared to banks'. Banks are wise to think about how they can generate recurring SaaS-like revenues by offering workflow-related services and thereby attract a greater share of wallet.

Figure 6: ... and Targeting 80% of Banks' Revenue Pools

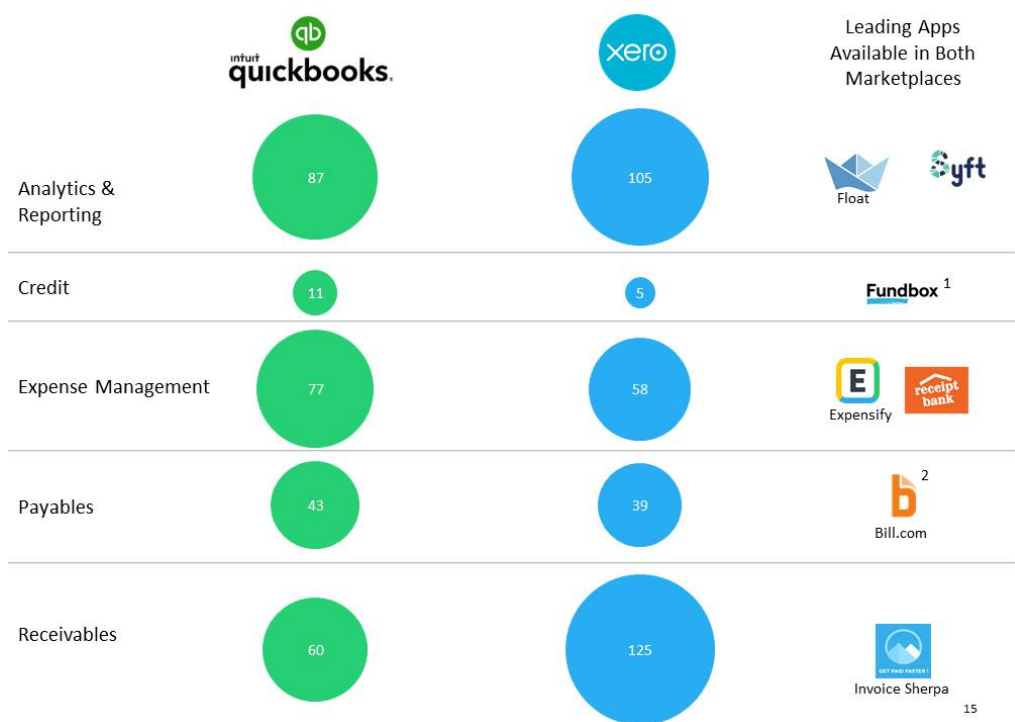


Source: Celent analysis, Oliver Wyman revenue pools, and Square

2020 marked a watershed with three platform players announcing entry into the small business deposit business: QuickBooks Cash, Square Bank, and Stripe Treasury which will power Shopify Balance and other e-commerce platforms’ banking offerings.

For the platforms, the swiftest strategy to capture small business value is to build an app marketplace. Figure 7 shows the extensive number of financial management apps offered by Intuit QuickBooks and Xero. This supermarket approach, however, lacks customer guidance beyond ratings and can result in a hit or miss selection process. Celent believes an embedded finance approach as discussed in the next section better serves the small business.

Figure 7: Apps-o-Rama



Source: Celent research, interviews, and analysis

In addition to these platforms, fintechs have banking aspirations. In 2020, Wave launched Wave Money, Brex announced Brex Cash, and Kabbage, acquired by American Express in October 2020, launched a full-service checking account.

While attention has been on the broad platforms, niche players supporting small businesses could pursue a platform strategy and embed finance into their platform. These players currently focus on business management solutions for a specific vertical. Examples include Yardi and AppFolio for property managers and Toast and Lightspeed for restaurant owners/managers.

Snapshots: Square, Stripe, Shopify, and Intuit



Square has become the paragon of a platform strategy. Beginning with a humble dongle a decade ago, it now serves nearly 3 million active sellers, which generates \$4.7 billion in annual revenue (2019) and around \$100 billion in annualized card volume. It has also built a popular mobile wallet, Cash App, that has more than 15 million users. Figure 8 shows the broad scope of small business services Square offers directly or through partners, and Figure 9 shows how Square has extended its reach across financial management. Figure 10 shows how Square applies its platform strategy in new verticals, such as restaurants.

A significant share of Square’s merchants are low users of banking services and hence offer the opportunity for new revenue streams. When it launched its Square Card (a free debit card from Mastercard that allows merchants to access funds that are in their Square account, i.e., it is not a new bank account), Square stated that 40 percent of beta testers never had a small business debit card before.

Figure 8: Square Serves the Entire Small Business Value Chain ...

	Product & People	Marketing	Distribution	Customer service/support	Financial Management
Square		<ul style="list-style-type: none"> Marketing tools Analytics Loyalty 		<ul style="list-style-type: none"> Customer Profiles 	
Square APIs/SDKs	<ul style="list-style-type: none"> Inventory Team 	<ul style="list-style-type: none"> Loyalty 	<ul style="list-style-type: none"> Bricks & mortar E-Commerce 		<ul style="list-style-type: none"> Cash Drawer (bookkeeping reports for cash drawer activity)
Square App Marketplace	<ul style="list-style-type: none"> Employee management Inventory 	<ul style="list-style-type: none"> Customer engagement Loyalty & Rewards 			<ul style="list-style-type: none"> Accounting & Tax Reporting & Analytics Restaurant Management

Source: Celent research, interviews, and analysis

Figure 9: ... and Covers a Significant Portion of Financial Management

Financial Supply Chain					
	Order	Invoice	Credit	Payment	Deposit
Square		Invoices	Square Capital	Merchant acquiring + • POS hardware & software • Cash drawer • Online checkout • Gift cards Standard transfer + • Instant Transfer • Prepaid debit card Other • Square Payroll	Square Bank
Square APIs/SDKs	<ul style="list-style-type: none"> • Catalog • Orders • Subscriptions 	<ul style="list-style-type: none"> • Invoices 		<ul style="list-style-type: none"> • Cash drawer 	<ul style="list-style-type: none"> • Bank accounts
Square App Marketplace	<ul style="list-style-type: none"> • Booking & Scheduling 	<ul style="list-style-type: none"> • Invoices • Project management 		<ul style="list-style-type: none"> • Payroll 	<ul style="list-style-type: none"> • Azlo Bank

Source: Celent research, interviews, and analysis

Figure 10: Square Is Building an Ecosystem for Restaurants



Source: Square



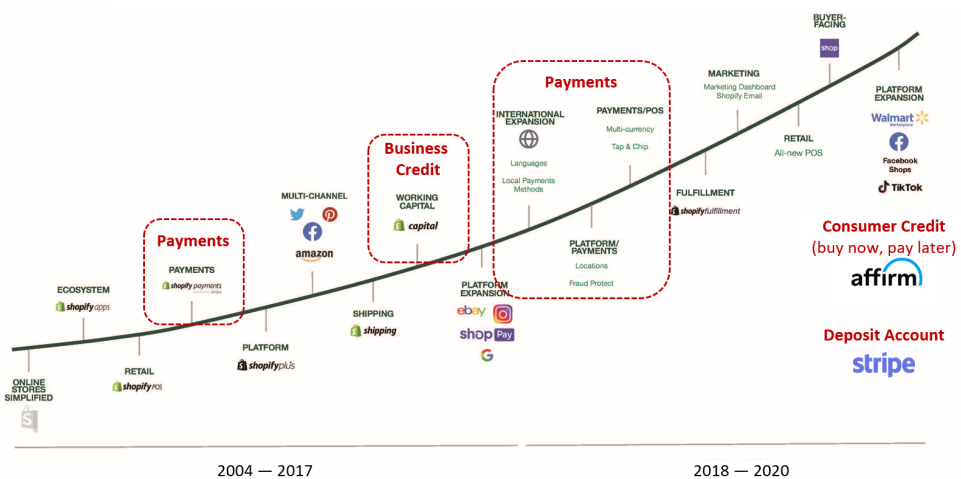
With its launch of Stripe Treasury, Stripe stands out for its global ambition and its unique decision to partner with select banks to offer banking-as-a-service to e-commerce platform customers (e.g., Shopify). Stripe Treasury allows banks to offer their merchants an interest-bearing deposit account along with flexible payment services. Goldman Sachs and Evolve Bank & Trust will deliver US accounts and Citi and Barclays will deliver non-US accounts. Stripe’s move is much more than an adjacency play. Rather, it is a beacon of the reinvention of small business banking by embedding finance in merchants’ workflows.



Shopify has been steadily building its financial services offerings (Figure 11).

Figure 11: Shopify’s Steady Financial Services March

Shopify considers payments and credits as core services and its deposit account, Shopify Balance, as an expansion—an ambition



Source: Shopify and Celent analysis

Shopify canvasses its merchants regarding their unmet needs. According to a Shopify May 20, 2020, press release, its launch of Shopify Balance is in response to those unmet needs: “We found that two in five merchants are currently using their personal bank accounts and cards for business, meaning they’re combining their personal and business finances, making it difficult to measure the financial health of the business.” As a result of its customer discovery, Shopify will offer the product features outlined in Table 1.

Table 1: Shopify Balance Product Features

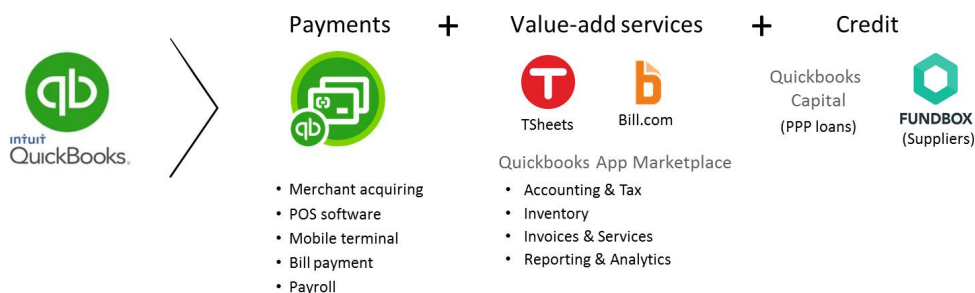
Feature	Description
Shopify Balance Account	A one-stop-shop within the Shopify admin where merchants can get a clear view of cash flow, pay bills, track expenses, and make decisions about the future of their business. Deposits will be Shopify payments only initially.
Shopify Balance Card	Physical and virtual cards merchants can use to access their money faster when spending in store, with mobile, or online, as well as when withdrawing from ATMs.
Rewards	Shopify plans to offer merchants cash back and discounts on everyday business spending such as shipping and marketing. Shopify Balance is a merchant account with no fees and no minimum balances.

Source: Shopify; Celent research and analysis



Intuit gets embedded finance, which has been a critical pillar of Intuit’s approach to growing QuickBooks revenue. It started with “get paid,” acquiring Innovative Merchant Solutions in 2003. The company then embedded merchant acquiring into QuickBooks, creating a win-win: for itself, streamlined customer acquisition and for its QuickBooks users, seamless payment to sales tracking. Intuit gradually integrated invoicing and payments and added credit through partnerships (Figure 12).

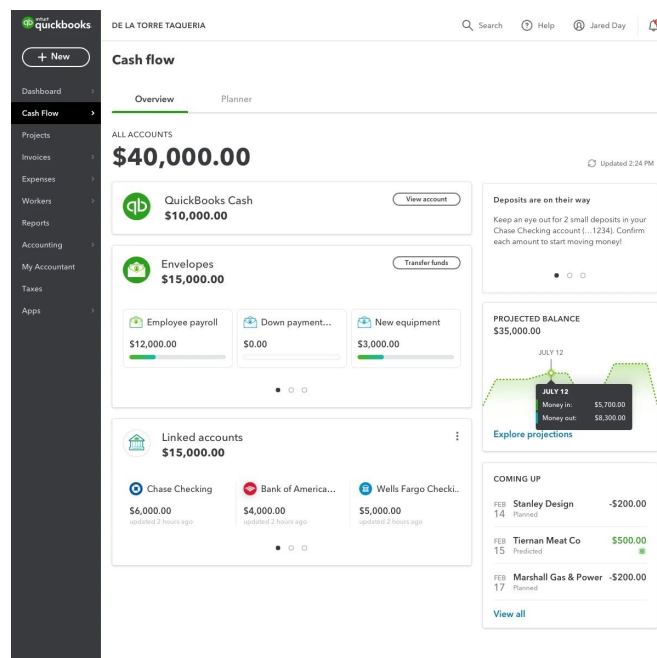
Figure 12: Intuit’s Steady Expansion in Small Business Financial Management



Source: Celent interviews and research

Today, Intuit is aspiring to be the financial dashboard for small businesses (Figure 13). QuickBooks Cash Flow coupled with QuickBooks Cash is an operating account that aggregates data from a small business’s other bank accounts delivered via a browser or mobile app.

Figure 13: Intuit's Embedded Finance



Source: Intuit

While Intuit enjoys a Goliath status, dominating small business accounting with an estimated 80% market share, it is vulnerable to fintech Davids and bank innovators. It has yet to build a complete cloud-first platform (e.g., its POS software is not yet integrated to QuickBooks Online). Moreover, Intuit suffers from poor customer service ratings (see next section), and its merchant acquiring service is relatively expensive compared with Stripe and Square.



This is not a real bank or a real company. It's an app that does not function properly."

Frustrated small business customer of a challenger bank
www.trustpilot.com review

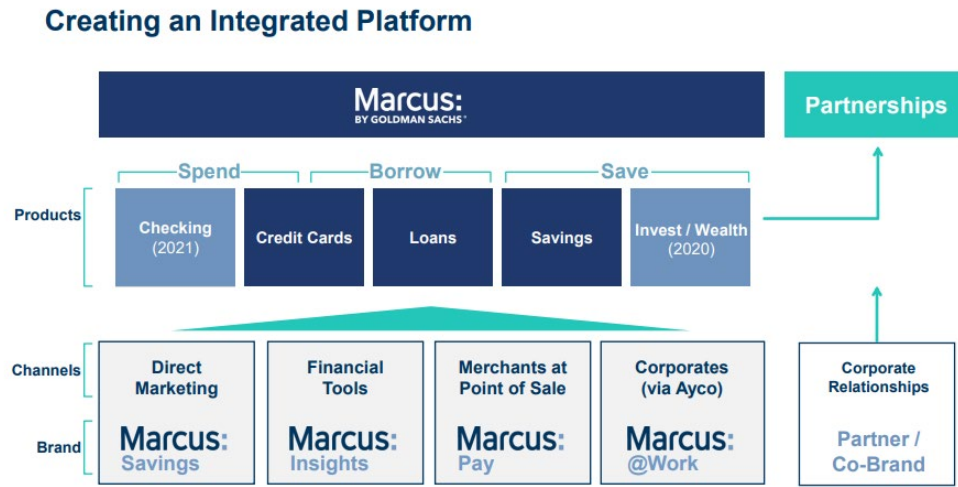
Challenger Banks

During the past decade, the term challenger bank has been used to describe de novo institutions or transformed incumbents with a modern tech stack and a value proposition focused on digital-first and fair pricing. For a bank wanting to win in the small business market, these attributes are necessary but far from sufficient. They lack to varying degrees two critical elements to winning: innovative value proposition and ability to deliver high touch. Prior to Stripe's partnership with Goldman Sachs, all were pursuing a traditional product-centric approach. None were reinventing. Many lack call center specialized customer support, relying on support@name.com and blogs (e.g., in response to the customer quoted above, the bank referred him to a blog post). As discussed in the next section, small businesses want a person to speak with, especially when they face challenging decisions, stressful situations, and/or unhappy banking journeys.

Recently, challenger banks have experienced consolidation. Seed (banking for freelancers) was acquired by Cross River Bank, an incumbent challenger bank (which has \$11 billion in assets and one location in New Jersey). Azlo was acquired by PNC as part of its BBVA US acquisition (note that Wise, another challenger bank, runs on BBVA's BaaS). Radius Bank, another incumbent challenger (with \$2 billion in assets and two locations, in New York and Massachusetts) was acquired by LendingClub, which has applied to become a bank holding company. Radius Bank powers NorthOne, which targets freelancers and startups.

The challenger to keep an eye on is Goldman Sachs. It has built an integrated banking platform, Marcus, to serve consumers. Initially it was going to target small businesses, and Marcus readily extends to small businesses as proved by the Stripe partnership (Figure 14). Through its entrepreneurship program, 10,000 Small Businesses, Goldman Sachs has learned much about the demand side, ranging from financial pain points to innovation and tech challenges.

Figure 14: Goldman Sachs's Marcus Platform



Source: Goldman Sachs

ACTION: UNDERSTAND THE CUSTOMER

“

A small business owner doesn't think in the morning: What's my banking account balance? Instead, they care about who'll show up, and what's my inventory.”

Small business fintech provider

A long-term winning strategy in serving small businesses begins by understanding their needs and applying a design thinking approach. Taking this approach results in three high-level conclusions. First, banking represents a relatively small fraction of small businesses' needs when one examines the big picture. Second, when developing a service, form should follow function, that is, the focus should be the small business's workflow (e.g., accounts payable). Third, digitalization is not the end all be all. Small businesses also greatly value high touch customer service.

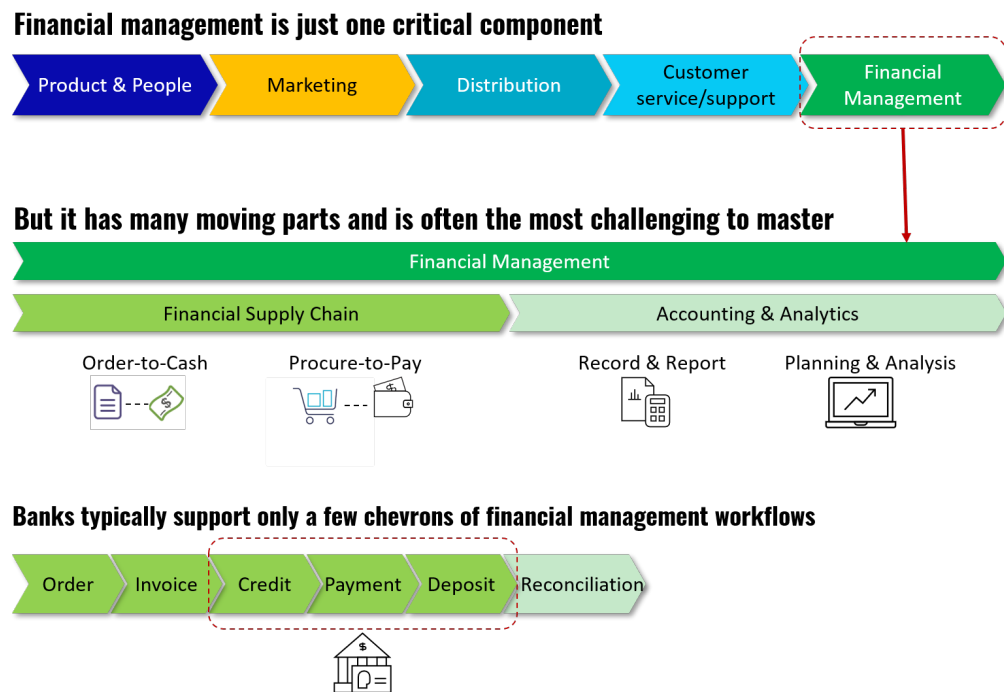
Get the Big Picture

To best understand the needs of small businesses, a provider must examine the big picture as outlined in Figure 15. Small businesses have a lot to manage, ranging from product, marketing, and distribution to financial management. Banking is only a few chevrons in their financial management workflows.

Small businesses typically understand their product or service, but many are on a learning curve when it comes to marketing. Distribution had been straightforward with the majority using physical channels (i.e., selling products or delivering services via bricks and mortar, open markets, or at the customer site). With COVID-19, business survival has required swift adoption of remote delivery and/or e-commerce.

Small businesses struggle with financial management. It is often the task they do after hours and/or on the weekend. It is often the source of stress, which has been exacerbated by the pandemic (see sidebar below). Despite digitization, financial management often entails manual work and redundant data entry.

Figure 15: Small businesses’ Perspective of Their Business

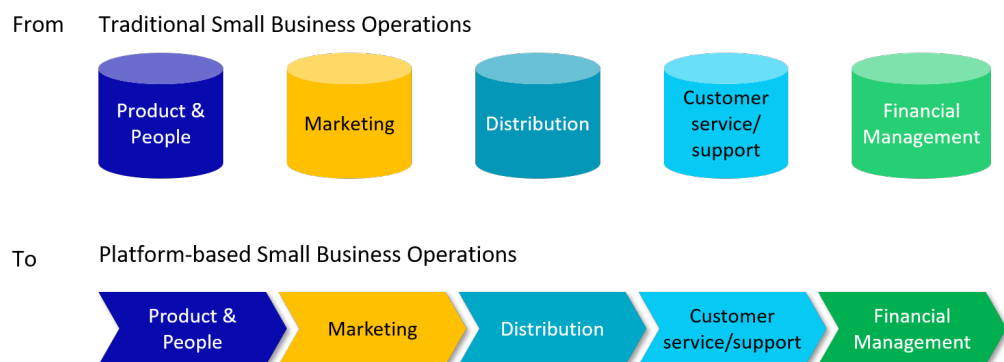


Source: Celent research, interviews, and analysis

From Silos to Chevrons

Where to start to understand small business needs? What do they want? Where do they struggle? Based on a first principles approach, the first answer is, they do not want silos but rather integrated, seamless workflows (Figure 16). As discussed previously, many of the platform players understand this and are leveraging their advantageous position.

Figure 16: From Silos to Chevrons



Source: Celent research, interviews, and analysis

Begin with first principles and function not form

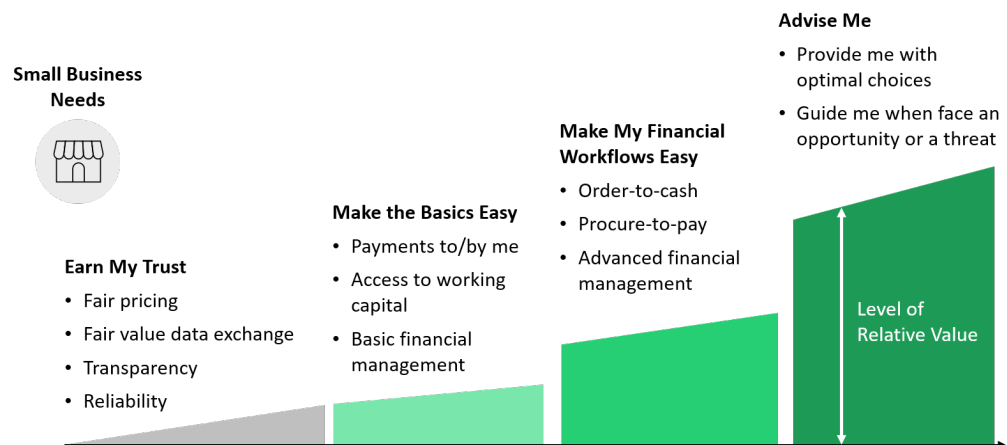
Like scientists, the most innovative banks avoid ingoing assumptions when solving a customer pain point or responding to a new need. They begin with first principles, that is, the tasks that a customer undertakes to achieve an end goal. Then they determine what is the best solution to complete a task.

The winners in serving small businesses will be those that design their services based on first principles and function.

Historically, banks have been product or form-driven. For example, from their lens, accounts payable equates to a deposit account with payment services, including e-bill payment. In contrast, from a small business lens, it equates to receiving an invoice, approving the invoice, timing invoice payment based on cashflow, and sending payment or accessing credit and then paying.

When it comes to financial services, small business needs can be arrayed in a hierarchy beginning with table stakes (trust-related) and basics and leading to workflow support and advice (Figure 17).

Figure 17: Hierarchy of Small Business Needs



Source: Celent research, interviews, and analysis



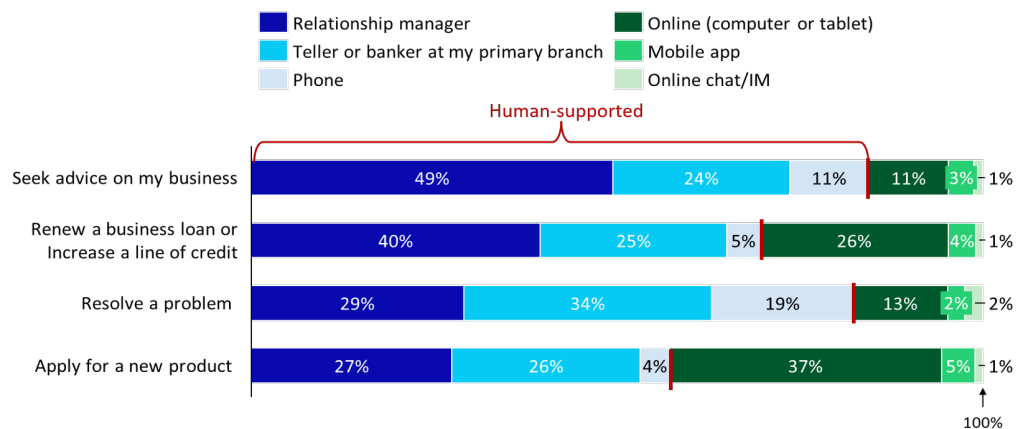
Small businesses want to have a conversation. They still want some sense of community, the process of talking with someone and bouncing off ideas. They really value their banking relationship.”

Director of Small Business Product & Client Segment Director, Tier 1 Bank

Digitalization: Not the End-All Be-All

Most reports on how to improve small business banking fixate on digitization. While digitization is critical, it is not the end-all-be-all. Small businesses want both high tech and high touch. A pre-COVID-19 Oliver Wyman survey of small businesses showed that for higher-level needs (e.g., resolve a problem), small businesses preferred high touch in the form of support from a relationship manager (RM) or banker at their primary branch or via a phone call (Figure 18). In a COVID-19 environment, Celent's conversations with several banks and tech providers suggest that RM/banker interactions have successfully shifted to phone.

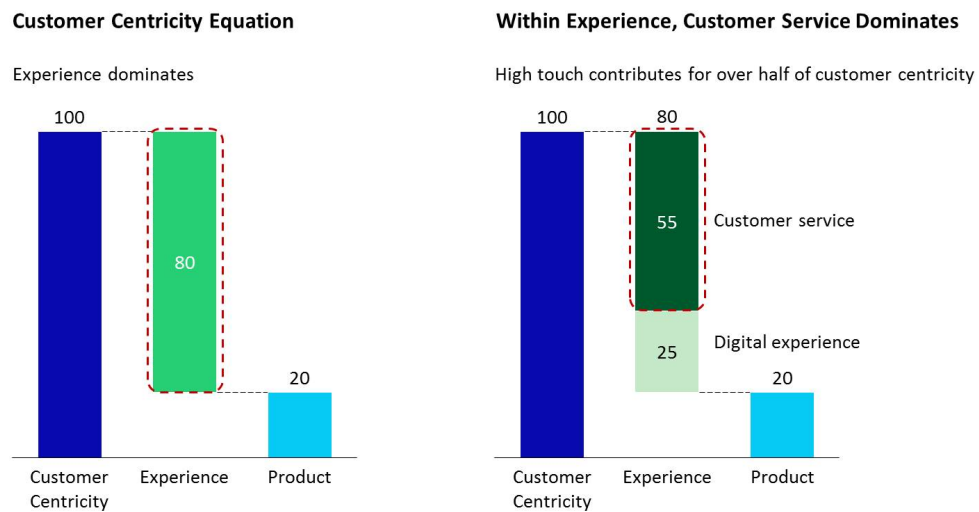
Figure 18: High Touch Matters—Channel Engagement



Source: Oliver Wyman

Another approach to gauging the relative demand for high tech and high touch is to examine how small businesses rate their banks on customer-centricity. Phase 5 analyzed the results of their small business survey along three dimensions that comprise customer centricity: customer service (i.e., high touch), digital experience, and product innovation. Phase 5 found "customer experience," customer service and digital experience combined, accounts for 80% of customer centricity and that customer service/high touch accounts for nearly 70% of "experience" (Figure 19).

Figure 19: High Touch Matters—Customer Centricity



Source: [Phase 5](#)/Delvinia

Interestingly, Phase 5 found a correlation between small businesses’ rating of high touch and more positive views of high tech. This creates a conundrum for banks: how to deliver high touch cost-effectively. This topic will be covered in our 2021 report, *Reinventing Small Business Banking Part II: Pacesetters in Game-Changing Moves*.

Big tech can miss the high-touch bar: Intuit

Intuit QuickBooks has only 2 out of 5 ★ rating on TrustPilot

QB’s score is pulled down by customers very unhappy about service.

“The software is pretty good, but the customer service is the WORST! You can no longer speak to a person. Everything is online chat. It is hard to get a person, and when you do, the wait to get an issue resolved is over 2 hours. This company is the worst. Find a better company.” (11/16/20)

“Very difficult to speak to someone regarding any issue. No supervisors or management to speak to. Very unhappy.” (11/10/20)

“With each call I make to support, I will be ‘disconnected’ at least 2–3 times and have to start the process all over. This includes attempts to call and use the ‘online support,’ which is worse.” (11/5/20)

COVID-19 Impact

The time to understand small business customers is now. Even in the best of times, small businesses face financial stress. The pandemic has naturally exacerbated their stress, underscoring the need for banks to better understand and serve them well.



Even before COVID-19 struck, small businesses faced financial stress due to:

- Revenues being too low (35%)
- Economic uncertainty (32%)
- Challenges to increasing profits (31%)

Source: Truist [Small Business Survey 2019Q1](#)



The economic repercussions of COVID-19 are exacerbating the stress:

- ~50% report having a large negative effect from the COVID-19 pandemic.
Source: U.S. Census Bureau, Small Business Pulse Survey
- Only 15–20% have enough cash on hand to cover 3 months of operations.
Source: Bohn, Mejia, and Lafortune, The Economic Toll of COVID-19 on Small Business 2020
- 42% of North American businesses stated that cash flow is a future challenge.
Source: Facebook/OECD/World Bank, The Future of Business Survey 2020
- Only 23% of businesses were very confident in their financial future in June 2020, down from 42% in Jan. 2020.
Source: NSBA Small Business Survey—COVID-19: The Path Forward



The silver lining of the pandemic has been accelerated adoption of digital payments, and for online small businesses, it has been e-commerce launches:

- 67% of small business owners agree that one upside to the pandemic is that it prompted them to upgrade their digital/e-pay solutions, which 81% say has improved customer satisfaction levels.
- 82% say they've changed how their business sends and receives payments.
- With 51% transitioning their clients to digital methods
- 70% say they are willing to invest in the technology required to advance their payment systems.

Source: Mastercard Survey [August 2020](#)

ACTION: REINVENT SMALL BUSINESS BANKING

“

I skate to where the puck is going to be, not where it has been.”

Wayne Gretzky, Canadian former pro ice hockey player

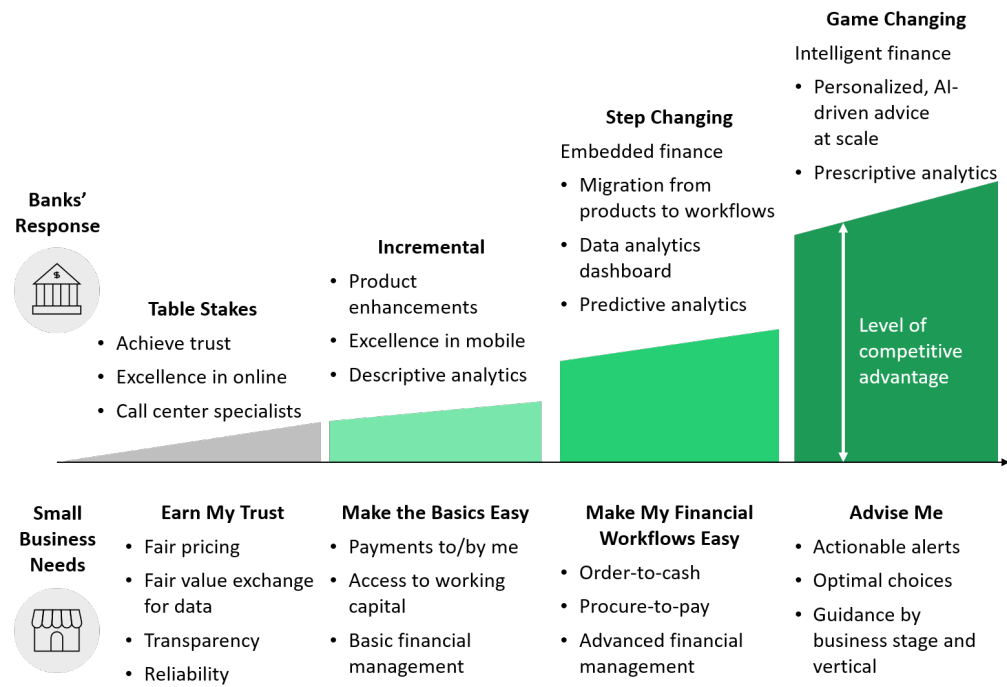
Reinventing small business banking involves significant cultural, product, and channel transformations by incumbent banks. It does not require a big bang but, rather, can begin with step changes that generate competitive advantage. Sustainable advantage, however, requires game-changing moves.

Where to begin to realize business reinvention? The customer. Figure 20 matches the small business needs discussed in the last section with how banks can respond. We categorize responses by their expected impact on a bank's competitive advantage: table stakes, incremental, step-changing, and game-changing. Most banks and nonbanks have focused on realizing incremental advantage. A small minority have achieved step-changing advantage, and none have yet arrived at a game-changing lead. This report focuses on step-changing reinvention.

First, a bank must cement customer trust by acting on a customer-centric credo, being empathetic and fair, and striving to be a customer advocate. Next, to “make the basics easy,” the bank needs to continually make incremental improvements in its products/services, achieve excellence in mobile banking, and provide easy access to descriptive analytics.

To realize small businesses' next level of needs, “make my financial workflows easy” requires step change. Achieving step change involves moving away from the traditional banking approach to a reinvented banking approach (Figure 21). Reinvention transforms a bank's value proposition, its delivery approach, its ability to offer data analytics and intelligence, and its growth and innovation strategies.

Figure 20: Realizing Competitive Advantage





Source: Celent research, interviews, and analysis

Competitive advantage framework

1 Incremental	2 Step Change	3 Game Changing
<ul style="list-style-type: none"> Leveraging proven technology to fix what's broken, e.g. solve common pain/friction points Informed by customer discovery Limited, short-lived competitive advantage 	<ul style="list-style-type: none"> Leveraging proven and emerging technology to transform processes, customer journeys Transforming business and operating model Informed by customer discovery and internal inventing Opportunity to take lead and market share 	<ul style="list-style-type: none"> Leveraging artificial intelligence/machine learning technology to generate new disruptive business models Informed by internal inventing on behalf of the customer Opportunity to generate a sustainable lead

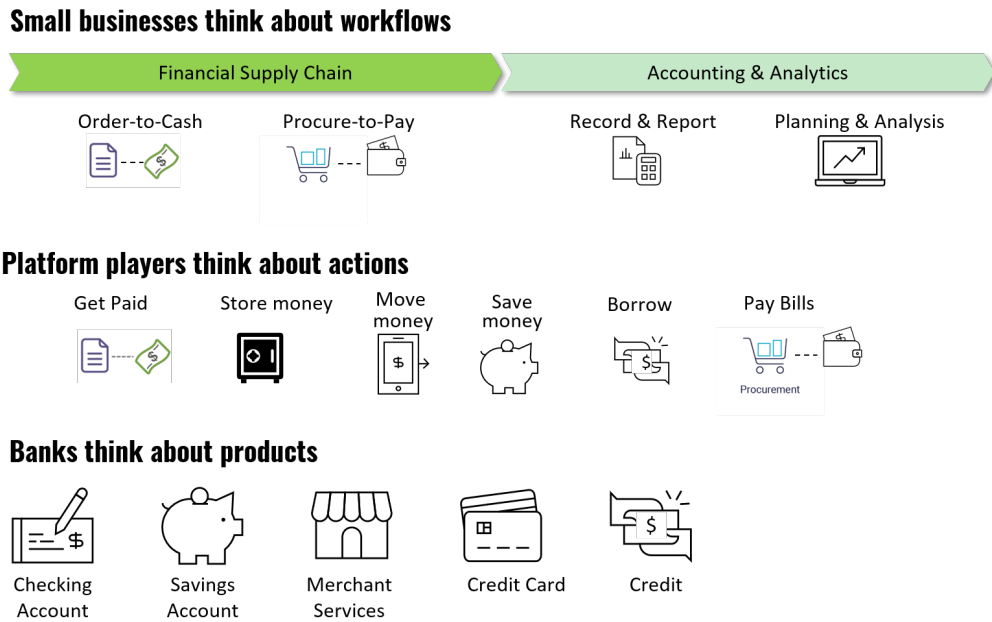
Figure 21: Reinventing Small Business Banking

	Traditional Banking	Reinvented Banking
Value Proposition		
	<p>Based on products/services:</p> <ul style="list-style-type: none"> Nearly 100% proprietary only (very limited third party products) Developed from the inside out Products in silos Low personalization 	<p>Based on embedded finance:</p> <ul style="list-style-type: none"> Ecosystem (partner-driven) model Design thinking-driven, outside-in Customer journey, workflow-centric High customer differentiation
Solutions & Channels	<ul style="list-style-type: none"> Proprietary only 	<ul style="list-style-type: none"> Proprietary channels embedded with banks' and partners' workflow solutions Partner distribution
Data Analytics & Intelligence (Customer-Facing)	<ul style="list-style-type: none"> Limited descriptive analytics 	<ul style="list-style-type: none"> Data analytics embedded in workflows Predictive and prescriptive analytics
Growth & Innovation	<ul style="list-style-type: none"> Historically, growth equated to physical footprint expansion Constrained by internal resource availability and risk aversion 	<ul style="list-style-type: none"> Digital dominates and thereby breaks physical constraints Enabled by partners
Economics	<ul style="list-style-type: none"> Price x value/volume (P x V) Spread x balance Penalty fees 	<ul style="list-style-type: none"> P x V + revenue share Spread x balance + revenue share New fee income

Source: Celent research, interviews, and analysis.

Small business banking needs reinvention because small businesses view banking and financial management overall dramatically differently from the banks' view. Small businesses think about workflows, and banks think about products, with most still offering checking accounts (Figure 22). Platform players think about the actions small businesses want to undertake.

Figure 22: Shift to a Small Business Mindset



Source: Celent research, interviews, and analysis.

In this report, we focus on achieving step change by embracing an embedded finance strategy, one in which a bank’s value proposition is based on facilitating customer workflows by embedding their services within these flows and by providing relevant data analytics.

STEP CHANGE—EMBEDDED FINANCE

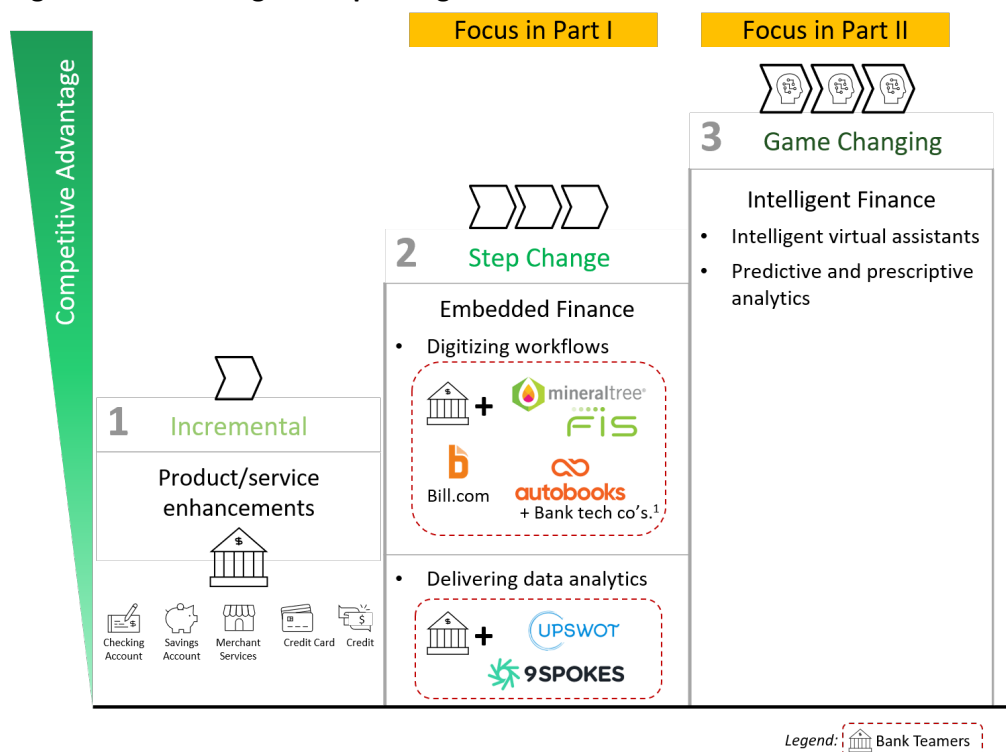


The whole is greater than the sum of its parts.”

Aristotle

Today, step change is manifesting in banks partnering to deliver embedded finance in the form of workflow digitization and data analytics (Figure 23). Banks seizing this opportunity will outperform the platform giants if they are able to provide an integrated experience that balances high tech and high touch.

Figure 23: Partnering for Step Change



¹Autobooks has reseller agreements with several bank tech providers (see Figure 24). Autobooks is embedded in several of JHA’s solutions, as profiled herein.

Source: Celent research, interviews, and analysis

We profile seven potential bank partners. Five partners are digitizing and simplifying workflows: Autobooks, JHA (which has embedded Autobooks in several of its solutions), Bill.com, MineralTree, and FIS (whose Invoice-to-Pay is powered by MineralTree). Two partners are delivering enhanced data analytics: 9Spokes and Upswot.

Figure 24 provides snapshots of these partners, which shows their diversity in terms of focus, partners, and size.

Figure 24: Bank Teamer Snapshots

Area	Provider	Size ¹ (USD)	Investors	Partners	Core focus
Workflow	Autobooks	\$20.8M (A 7/2019)	Baird Capital Draper Triangle Detroit Venture Partners	Microsoft Azure Cloud Stack; pre-built integrations for Microsoft Jack Henry – embedded in several solutions (as profiled herein) Resellers: Microsoft Gold & Financial Services Co-Sell Partner Core & Digital Banking: Alkami, Bottomline, CSI, FIS, Jack Henry, & Q2 Payments: Elavon, Fiserv (First Data), 1stAmerican, TSYS, FIS (World Pay)	<ul style="list-style-type: none"> • Receivables – lead product • Accounting and payables follow • Micro to small businesses • “Jobs to be done” framework
	Bill.com	\$11.6B (public)	n.a.	Mastercard and Comdata/Fleetcor (v-cards)	<ul style="list-style-type: none"> • Payables original service • Added receivables
	FIS Invoice- to-Pay	\$91.7B (public)	n.a.	Powered by MineralTree	<ul style="list-style-type: none"> • Payables– end-to-end, option to start with integrated payables
	MineralTree	\$123M (D 9/24/20)	Great Hill Partners .406 Ventures Eight Road Ventures	FIS – Product partnership Sage Intacct - Joint customer product enhancement Visa (commercial cards)	<ul style="list-style-type: none"> • Payables – end-to-end, option to start with integrated payables • Medium sized businesses +
Data Analytics	9Spokes	\$29.2M (public ASX)	n.a.	Microsoft Azure Cloud Stack; co- sell partnership Foundation – U.S. distribution Visa USA – U.S. distribution	<ul style="list-style-type: none"> • Collection, analysis, and visualization of data from popular small business apps
	Upswot	\$4.2M (seed 1/2021)	Investors to be announced in Jan. 2021	Mphasis Temenos	<ul style="list-style-type: none"> • Collection, analysis, and visualization of data from popular small business apps • For both customers and bank employees, including the front-office (next best step), and risk/underwriting • UI for credit application which incentivizes connection of apps

Source: Celent research, interviews, and analysis

Figure 25 shows the extent to which these providers have teamed with banks (named banks are listed). There are several interesting takeaways:

- These partners are levelling the playing field for Tier 2 and below banks.
- Tier 1 banks, which have historically preferred to build vs. “buy,” have been busy partnering.

Figure 25: Bank Partners by Provider

Area	Provider	Bank Ranking			
		Below top 50	Next 40	Top 10	
Workflow	Autobooks	Radius Bank ChoiceOne First Bank (NC)	Summit Community Bank Community Choice CU 4Front CU	TCF Bank First Citizens Bank	TD Bank
	Bill.com	Commerce Bank First National Bank of Omaha	Key Bank	Bank of America JPMorgan Chase PNC Wells Fargo	
	FIS Invoice-to-Pay			HSBC Truist	
	MineralTree	TCB Umpqua Bank People’s United Bank	Bank of the West City National Bank Union Bank	JPMorgan Chase Wells Fargo U.S. Bank Truist (via FIS)	
Data Analytics	9Spokes			Bank of America Outside the U.S.: Bank of New Zealand OCBC Bank	
	Upswot	3 undisclosed U.S. banks in paid proof-of concept	1 undisclosed U.S. banks in paid proof-of concept	2 undisclosed U.S. banks in paid proof-of concept	

Source: Celent research, interviews, and analysis

Partners in workflow digitization

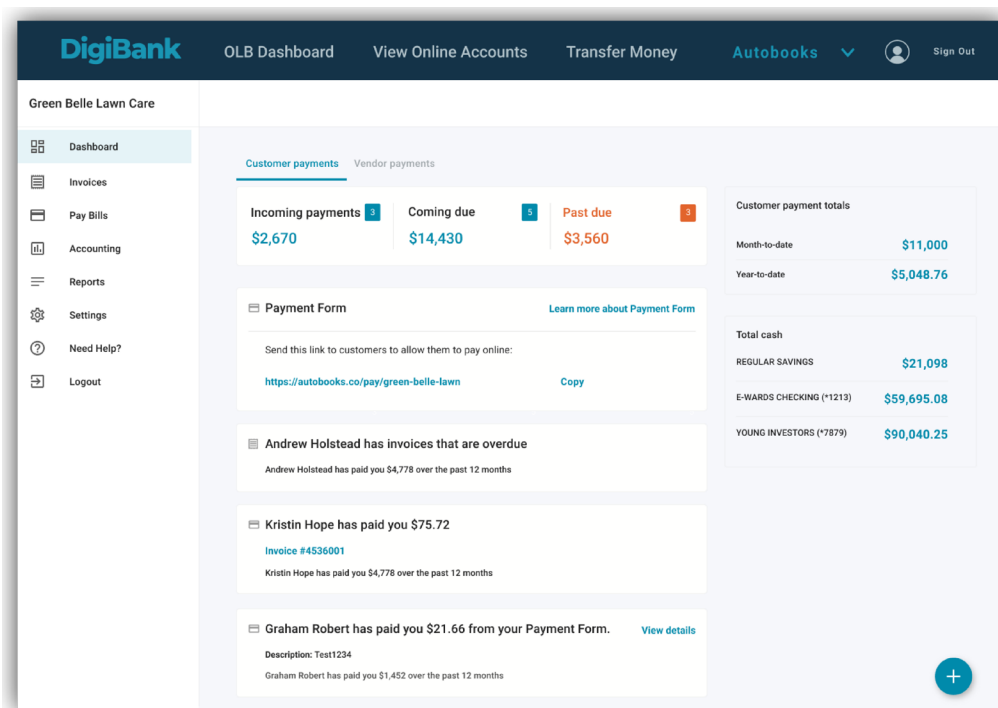
Small business owners typically deal with a bunch of paper when it comes to financial management. A majority do not use an accounting software package. They continue to be heavy users and receivers of checks. Thanks to technological advances, banks can now partner and embed digital workflows for both accounts payable and receivable. Celent profiles five providers that are teaming with banks: Autobooks, JHA (which has embedded Autobooks in several of its solutions), Bill.com, MineralTree, and FIS.

Autobooks

Autobooks (a truncation of automated booking) is a fintech striving to enable banks to boost small business customer engagement through online and mobile channels. Its value proposition goes far beyond a user-friendly white-label accounting platform embedded in the bank channel (Figure 26). It has 73 financial institutions under contract (as of December 1, 2020) with 45 live and is currently closing three banks per month. Typical deployment takes 90 days

Autobooks’s goal is to make small business customer journeys—which it calls “jobs”—easy and low-stress. Its current focus is on “get paid” jobs, but it also offers “pay” functionality. Its target market is the small businesses and independent workers that do not use accounting software (estimated at 20 million small businesses and 41 million independent workers). It can also serve small businesses that use cloud-based accounting software and want to use its receivables and payables functionality.

Figure 26: Autobooks’s Dashboard



Source: Autobooks

Autobooks is unique in its approach to capturing the voice of the customer and responding to it. It has embraced a demand-side credo and strives to understand what the customer is trying to achieve and why as well as what struggles and emotions the customer is experiencing. As a result, it has developed a “jobs to be

done” framework.³ It believes that once a provider knows the customers’ “jobs,” it earns trust and can better determine how to eliminate a customer’s workflow struggles. Autobooks leads with jobs related to getting paid, which is particularly timely. It has homed in on four “jobs” whose facilitation it believes can be the most impactful:

- Add a simple and trackable way to pay to my existing system.
- Help me get back to offering credit card payment to my customers.
- Make it easy to get started with invoicing and payments.
- I’m overwhelmed. Make invoicing and payments simpler.

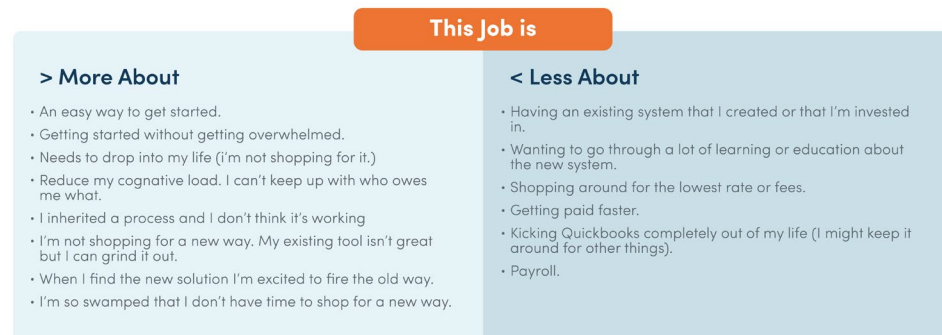
For the latter, “Make invoicing and payments simpler,” Figure 27 displays Autobooks’s customer discovery results: what the customer journey is more/less about; the customer’s story and its components (push, pull, anxiety, and habit); the functional, social, and emotional elements and their trade-offs; and, lastly, the customer’s “hiring” (i.e., positive decision drivers) and “firing” (i.e., negative decision drivers) criteria.

Figure 27: Autobooks’s Jobs to Be Done—I’m overwhelmed. Make invoicing and payments simpler.

Autobooks Small Business Job #4:

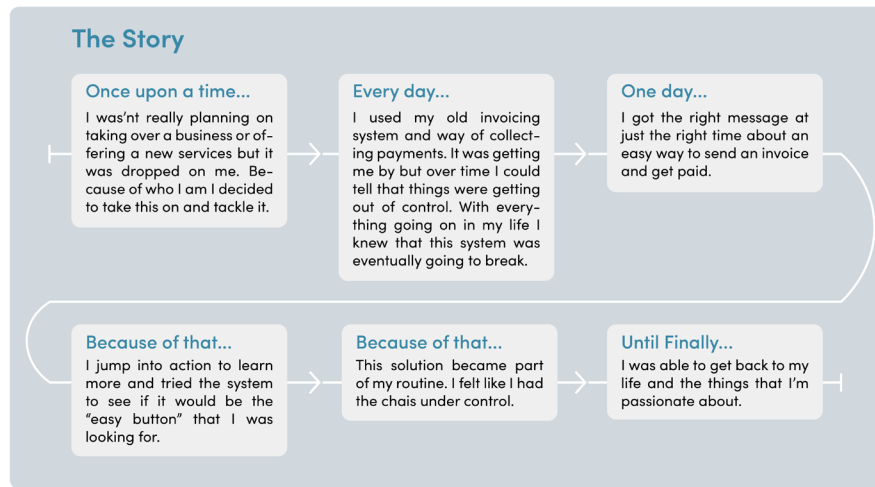
I’m Overwhelmed. Make Invoicing and Payments Simpler

When I inherited a way of invoicing customers and getting paid that isn’t working for me, give me a way to invoice customers, accept payments, and keep things organized so I can feel less overwhelmed and start to manage the chaos.

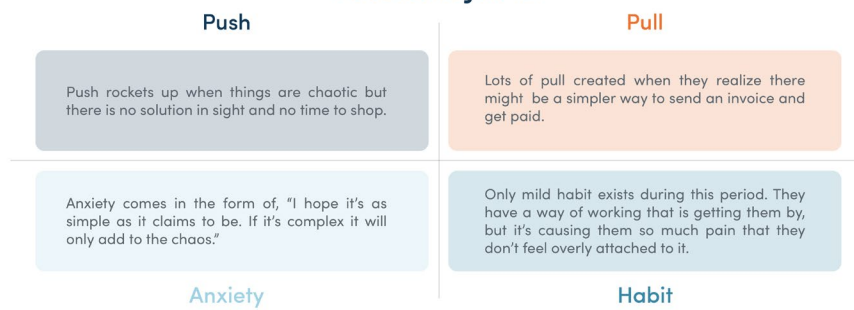


³Chris Spiek, VP of Customer Acquisition at Autobooks, and Bob Moesta pioneered the concept of “jobs to be done” and authored several books. Moesta, author of *Demand-Side Sales 101*, also works with Autobooks.

Autobooks Job #4: The Pixar Pitch



Autobooks Job #4



Autobooks Job #4

<p>Functional, Social, and Emotional Elements</p> <ul style="list-style-type: none"> • Emotional: This is my release value. Thank God I found this! • Functional: Simple and convenient. You're attached to my bank account. • Emotional: I need to stop the chaos • Social: I'm doing this for me (more than my customers) • Social: Someone held my hand and walked me through it. 	<p>Tradeoffs They Make</p> <ul style="list-style-type: none"> • Mobile: I had a mobile solution before and I was willing to give it up. • Brand: I was willing to leave a "household name" like Quickbooks. • I was willing to leave an eco system and willing to adopt different tools for specific tasks.
<p>Hiring Criteria</p> <ul style="list-style-type: none"> • It comes from a trusted source. • Do the vetting for me (financial institution). • It's part of my bank account. • It's recognizable: must be like Quickbooks. 	<p>Firing Criteria</p> <ul style="list-style-type: none"> • I can't get support or help when I need it. • It takes me too long to invoice every week. • Too complex

Source: Autobooks

Autobooks has quantitative proof that it can generate a win-win for small businesses and banks by migrating payments received from paper to electronic. It analyzed a cohort of 225 small businesses that adopted Autobooks and used it actively for 12 months. It found that cash deposits dropped sharply from 18.7% (3 months prior) to

5.8% (12 months later). It also found that customer online engagement increased. Before Autobooks, small businesses surveyed logged in 5.4 times per month. After, they logged in 23.6 times per month. One bank Celent spoke with experienced a 437% increase in logins among Autobooks users.

Autobooks is highly results-driven and focuses on two key performance metrics. First, it tracks adoption within the first 30 days with a goal of 1% of a bank's eligible small business base, which includes any business or account holder with access to Autobooks, online banking, and that has active contact information on file. Second, it tracks adoption over 12 months with a goal of 4%. Performance vis-à-vis these goals determines the actions Autobooks takes to encourage adoption.

Autobooks realizes banks need support to drive Autobooks adoption and that their traditional approaches to encouraging online/mobile adoption are insufficient. As a result, it has developed a go-to-market program (Figure 28). First, it guides a bank through a launch event. Then, it supports a bank in delivering content that resonates with small businesses, creating seasonal campaigns, customer webinars, and ongoing employee training. Bank clients Celent spoke with talked highly of Autobooks's go-to-market initiatives and their success.

Figure 28: Autobooks's Go-to-Market Services



Source: Autobooks

Autobooks works closely with a bank's digital banking vendor to embed Autobooks effectively in online/mobile banking. For example, it partnered with JHA in 2018. Both recognized a win-win opportunity to integrate Autobooks into JHA's core payments-related systems and online banking platform (at the time, NetTeller, which was replaced by Banno). JHA benefits from enhanced capabilities and a new revenue

stream through a revenue share. Autobooks benefits from the endorsement by JHA and gains access to JHA’s extensive client base. In 2019, JHA integrated Autobooks with Banno, its consumer and small business digital banking platform (with 25 FIs in production).

**JHA partnership
powering
community
banks**

By teaming, JHA and Autobooks are helping to level the playing field for community banks, such as with Michigan-based ChoiceOne Bank. In late 2017, ChoiceOne aspired to differentiate itself in serving microbusinesses (<5 FTE) beyond the online features race. ChoiceOne found in the JHA Banno Autobooks integration that “a couple things

hit perfectly” per Adom Greenland, COO. They shared mutual goals of facilitating receivables and payables workflows. Results have been strong. Greenland found that Autobooks users are “hyper loyal” and give the bank above-average NPS. The strongest positive feedback has come from mature businesses. “Wish I had this earlier” is a common comment.

Recently, Autobooks updated its platform to enable invoicing as a standalone module. This update enables financial institutions to offer digital invoicing as a standard feature of digital banking, mimicking for receivables what online bill pay has done for payables. Future Autobooks enhancements will include enabling real time access to incoming payments and offering an integrated virtual terminal for digital banking in Q1 of 2021. Account opening integration and lending are being evaluated for late 2021.

PATH FORWARD



It's always further than it looks. It's always taller than it looks.
And it's always harder than it looks."

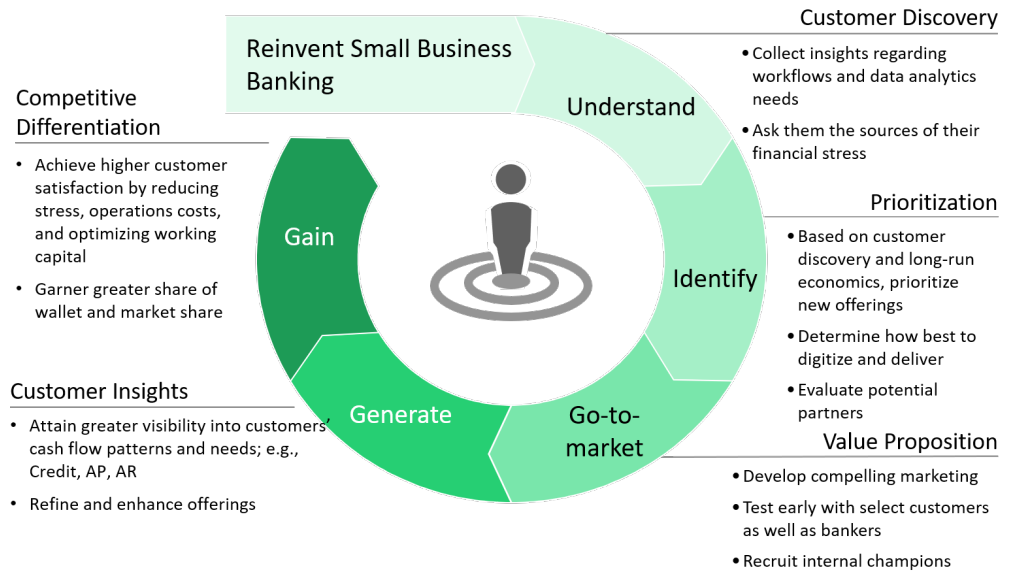
Reinhold Messner, one of the few people to have climbed all 14 peaks
worldwide above 8,000 meters.

And he kept climbing ...

The traditional supply-side approach to small business banking will not be a winning one. Many small businesses today are not completely satisfied with their primary bank. A new generation of formidable nonbank competitors is seizing the opportunity to reinvent by pursuing a demand-side, customer-centric approach. It is not a forgone conclusion, however, that banks won't be among the reinvention winners. Banks can respond by teaming with third party providers to deliver embedded finance comprised of digital workflows along with powerful data analytics.

The reinvention journey can be straightforward (Figure 36). It begins by understanding the small business customer from their vantage point. It begins with empathy. Based on customer discovery and its long-run economics, a bank can prioritize new offerings and determine how best to digitize and deliver. The next step typically involves evaluating potential partners. Then, a bank must carefully craft its go-to-market strategy, since it will differ dramatically from traditional methods, as discussed in the provider profiles. Once customers are on board, a bank should leverage the data generated by customer usage patterns as well as any new data the customer has permissioned access. It can then refine and enhance its offerings. As long as the voice and data of the customer have guided the bank, the bank should achieve step change and competitive differentiation. It will then join the elite small business banking pacesetters.

Figure 29: The Virtuous Circle of Reinvention



Source: Celent

LEVERAGING CELENT'S EXPERTISE

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

Support for Financial Institutions

Typical projects we support related to policy administration systems include:

Vendor short listing and selection. We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

Business practice evaluations. We spend time evaluating your business processes, particularly in the context of a digital transformation. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

IT and business strategy creation. We collect perspectives from your executive team, your front-line business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

Support for Vendors

We provide services that help you refine your product and service offerings.

Examples include:

Product and service strategy evaluation. We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

Market messaging and collateral review. Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

RELATED CELENT RESEARCH

[Innovation and Innovators in Working Capital Finance](#)

September 2020

[Blockchain Adoption in Corporate Banking: Generating the Flywheel Effect](#)

August 2020

[Playing the Long Game to Enhance Client Engagement: 2020 Corporate Digital Channels Survey Results](#)

August 2020

[AI in the UI Pacesetters](#)

June 2020

[Digital Customer Onboarding Vendor Spectrum: Corporate Banking Edition](#)

April 2020

[Open Banking API Portals: Five Best Practices to Increase Developer Engagement](#)

April 2020

[Digital Customer Onboarding Vendor Spectrum: Small Business Banking Edition](#)

January 2020

[Top Trends in Corporate Banking: Tipping the Scale in Banks' Favor](#)

September 2019

[From Challenged to Challenger: Become a 21st Century Bank](#)

June 2019

[Pacesetters in Customer Engagement: Top Trends and Best Practice Players](#)

November 2018

COPYRIGHT NOTICE

Copyright 2021 Celent, a division of Oliver Wyman, Inc., which is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC]. All rights reserved. This report may not be reproduced, copied or redistributed, in whole or in part, in any form or by any means, without the written permission of Celent, a division of Oliver Wyman ("Celent") and Celent accepts no liability whatsoever for the actions of third parties in this respect. Celent and any third-party content providers whose content is included in this report are the sole copyright owners of the content in this report. Any third-party content in this report has been included by Celent with the permission of the relevant content owner. Any use of this report by any third party is strictly prohibited without a license expressly granted by Celent. Any use of third party content included in this report is strictly prohibited without the express permission of the relevant content owner This report is not intended for general circulation, nor is it to be used, reproduced, copied, quoted or distributed by third parties for any purpose other than those that may be set forth herein without the prior written permission of Celent. Neither all nor any part of the contents of this report, or any opinions expressed herein, shall be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other public means of communications, without the prior written consent of Celent. Any violation of Celent's rights in this report will be enforced to the fullest extent of the law, including the pursuit of monetary damages and injunctive relief in the event of any breach of the foregoing restrictions.

This report is not a substitute for tailored professional advice on how a specific financial institution should execute its strategy. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisers. Celent has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified, and no warranty is given as to the accuracy of such information. Public information and industry and statistical data, are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information and have accepted the information without further verification.

Celent disclaims any responsibility to update the information or conclusions in this report. Celent accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages.

There are no third party beneficiaries with respect to this report, and we accept no liability to any third party. The opinions expressed herein are valid only for the purpose stated herein and as of the date of this report.

No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

For more information, please contact info@celent.com or:

Alenka Grealish agrealish@celent.com

Americas

USA

99 High Street, 32nd Floor
Boston, MA 02110-2320

[+1.617.262.3120](tel:+1.617.262.3120)

USA

1166 Avenue of the Americas
New York, NY 10036

[+1.212.345.3960](tel:+1.212.345.3960)

USA

Four Embarcadero Center
Suite 1100
San Francisco, CA 94111

Brazil

Av. Dr. Chucri Zaidan, 920
Market Place Tower I - 4^o Andar
Sao Paulo SP 04583-905

EMEA

Switzerland

Tessinerplatz 5
Zurich 8027

[+41.44.5533.333](tel:+41.44.5533.333)

France

1 Rue Euler
Paris 75008

[+33 1 45 02 30 00](tel:+33.1.45.02.30.00)

Italy

Galleria San Babila 4B
Milan 20122

[+39.02.305.771](tel:+39.02.305.771)

United Kingdom

55 Baker Street
London W1U 8EW

[+44.20.7333.8333](tel:+44.20.7333.8333)

Asia-Pacific

Japan

The Imperial Hotel Tower, 13th Floor
1-1-1 Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011

Hong Kong

Unit 04, 9th Floor
Central Plaza
18 Harbour Road
Wanchai