



THE \$370 BILLION SMALL BUSINESS OPPORTUNITY FOR BANKS

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EXECUTIVE SUMMARY

The COVID-19 crisis' impact on small businesses—as well as on the economy and society as a whole—has been devastating. According to a study from Main Street America:

“Millions of small businesses are at risk of closing permanently if the COVID-19 crisis continues for several months. The crisis has had a devastating impact on small businesses' revenue, and millions of Americans employed by small businesses are at risk of unemployment as a result.”

In response, Congress created the Paycheck Protection Program (PPP), which included nearly \$670 billion of funds to be disbursed by banks and credit unions to small businesses. Banks—including many that had not previously focused on serving small businesses—saw new opportunities.

In addition to the grants and allowances provided by the government, the predicament has created opportunities for banks to help small businesses through lending, deferred payments, fee waivers and loan forbearances.

Lack of automation within many small businesses, however, made the PPP application process—and other requests—onerous and time-consuming. Lack of technology support for accounting functions, poor integration between accounting and payroll functions, and insufficient reporting capabilities on the part of the tools and technologies in place all contributed to this problem.

This “problem” is actually an opportunity for banks: a \$370 billion opportunity to provide accounting and payments services to small- and medium-size enterprises (SMEs).

Today, SMEs spend roughly \$225 billion on accounting/bookkeeping, invoicing, bill payment and payment acceptance services from third-party providers. Many of these SMEs would consider obtaining accounting and payments services from a bank—as would many that don't currently use third-party services and, instead, incur internal expenses for their accounting and payments functions.

This report, based on a survey of small business owners and executives, sizes banks' revenue opportunity for providing accounting and payments services, identifies the small business accounting and payments pain points that banks must address, and identifies the rationale for pursuing this business.

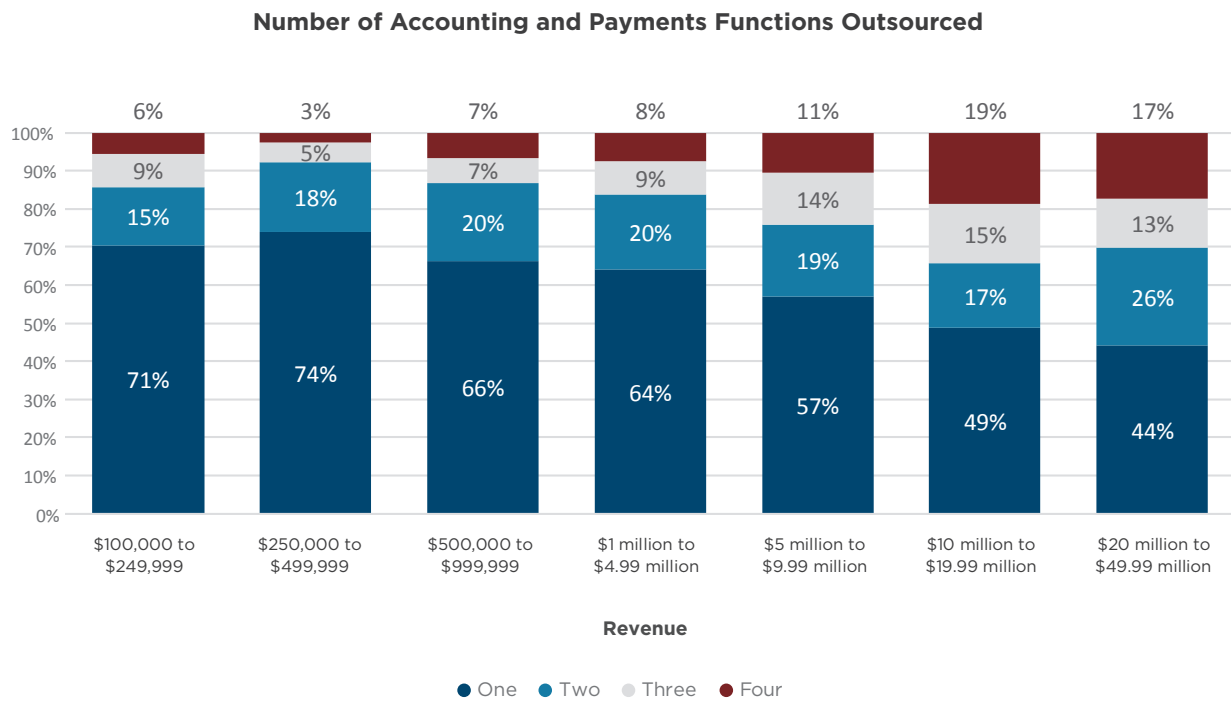
About the Data

In March 2020, Cornerstone Advisors conducted an online survey of 1,265 small business owners and executives. The sample was limited to businesses with more than one employee and annual revenue between \$100,000 and \$50 million, and to respondents who are: 1) owners or partners of the business, 2) the CEO or president of the business, and 3) employees responsible for the management of, and decisions regarding, the company's accounting or payments functions.

THE \$370 BILLION REVENUE OPPORTUNITY

Every one of the small businesses surveyed uses at least one third-party provider for accounting, invoicing, bill pay or payment acceptance. Generally speaking, the larger the business, the more likely it is to outsource more than one accounting and payments function (Figure 1).

FIGURE 1: Number of Accounting and Payments Functions Outsourced



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

Average spend on third-party support for accounting and payments functions ranged from \$21,600 for businesses with less than \$250,000 in revenue to more than \$700,000 for larger SMEs (Table A).

TABLE A: Third-Party Accounting and Payments Spend per SME

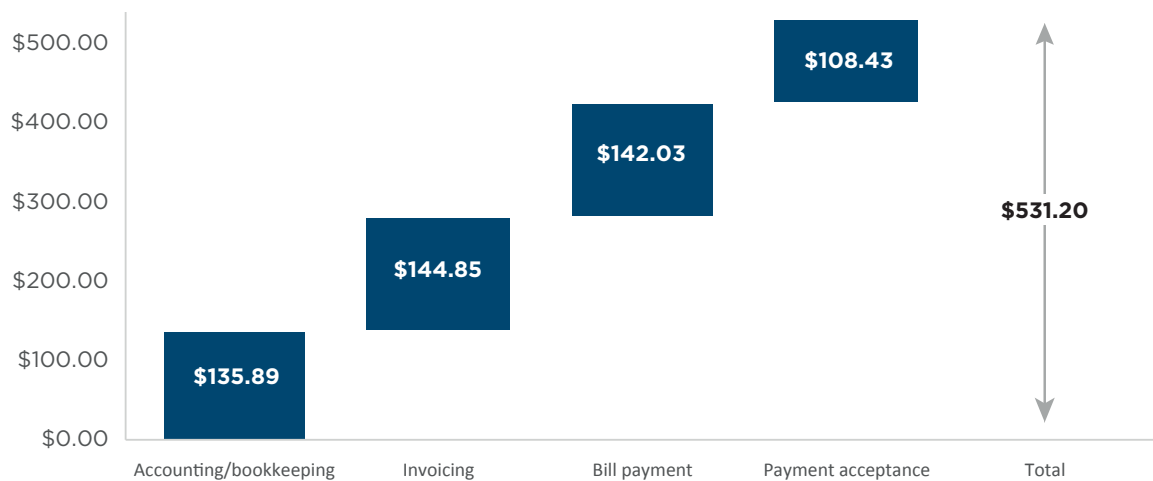
	\$100k to \$249k	\$250k to \$499k	\$500k to \$999k	\$1m to \$4.99m	\$5m to \$9.99m	\$10m to \$19.99m	\$20m to \$49.99m
SPEND PER SME PER SERVICE							
Accounting/bookkeeping	\$4,400	\$10,100	\$15,200	\$31,100	\$90,600	\$159,000	\$172,800
Invoicing	\$6,400	\$9,800	\$26,700	\$25,500	\$86,000	\$159,000	\$187,000
Bill payment	\$6,400	\$11,600	\$17,600	\$27,700	\$102,700	\$157,600	\$171,600
Payment acceptance	\$4,400	\$6,400	\$12,000	\$26,200	\$71,200	\$109,700	\$173,700
TOTAL	\$21,600	\$37,900	\$71,500	\$110,500	\$350,500	\$585,300	\$705,100

Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

Estimated total spending on third-party support for accounting and payments functions in 2020 exceeds \$530 billion (Figure 2). SMEs with more than \$10 million in revenue—which comprise just 4% of small businesses—account for a quarter of the spend (Figure 3).

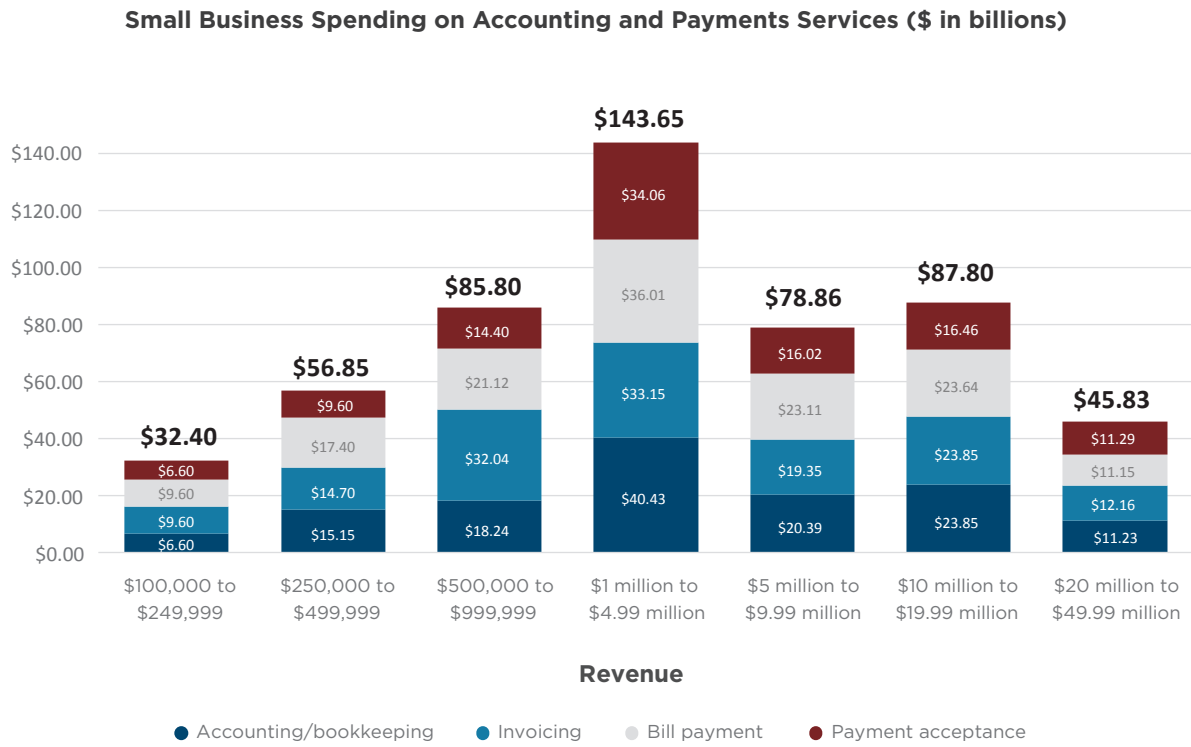
FIGURE 2: Small Business Spending on Third-Party Accounting and Payments Services

Small Business Spending on Accounting and Payments Services (\$ in billions)



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

FIGURE 3: Small Business Spending on Third-Party Accounting and Payments Services by Segment

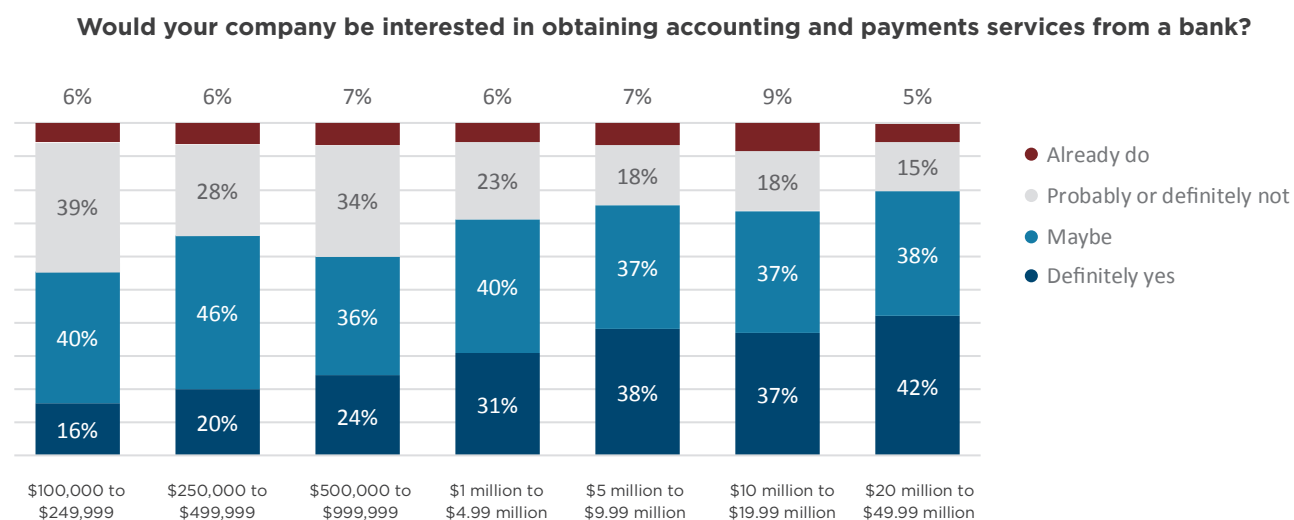


Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

The \$370 Billion Opportunity for Banks

Many small business owners and executives—particularly those from larger SMEs—expressed an interest in getting accounting and payments services from a bank. Roughly four in 10 small businesses with revenues greater than \$5 million said they would “definitely” consider a bank for accounting, invoicing, bill pay and payment acceptance services (Figure 4).

FIGURE 4: Small Business Interest in Accounting and Payments Services from Banks

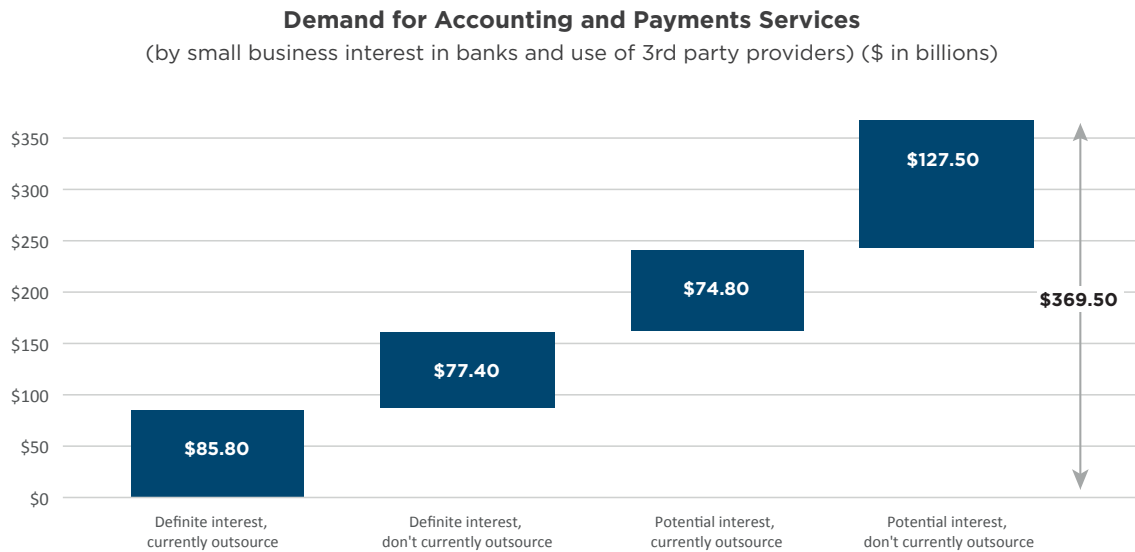


Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

Based on these intentions, we estimate that the revenue opportunity for banks from providing accounting and payments services to SMEs is roughly \$370 billion per year (Figure 5). That number breaks down into four components:

- \$85.8 billion from small businesses that are “definitely” interested in getting accounting and payments services from a bank and currently outsource (i.e., use a third-party provider) some or all of their accounting and payments services
- \$77.4 billion from small businesses that said “maybe” to the question regarding their interest in obtaining accounting and payments services from a bank and currently outsource some or all of their accounting and payments services
- \$78.8 billion from small businesses that are “definitely” interested in getting services from a bank but don’t currently outsource (i.e., use a third-party provider) accounting and payments functions
- \$127.5 billion from small businesses that might be interested in bank-provided services and don’t currently outsource

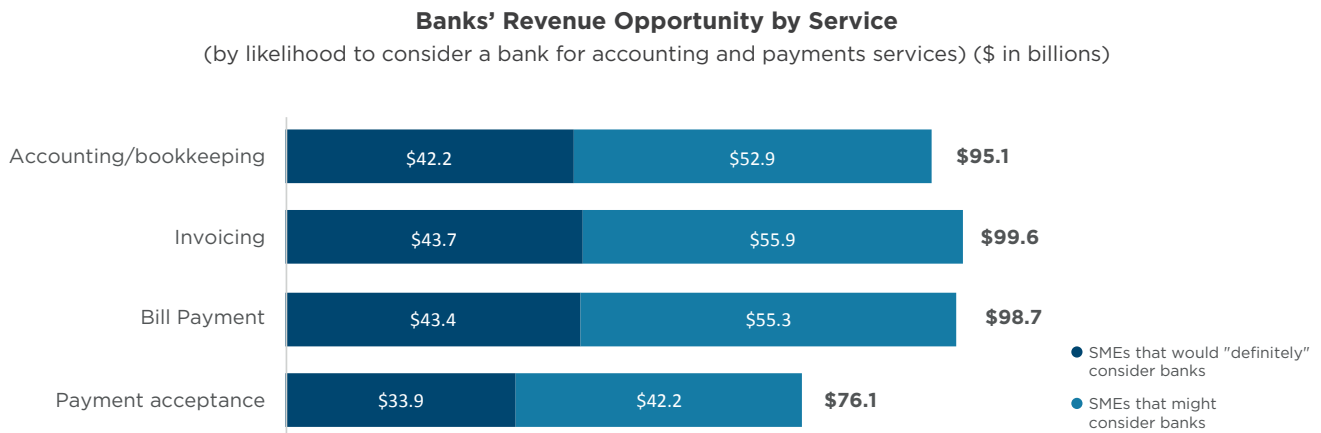
FIGURE 5: Banks' Revenue Opportunity in Accounting and Payments Services



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

The revenue opportunity for accounting/bookkeeping, invoicing and bill payment services are each just shy of \$100 billion, with the payment acceptance opportunity at roughly \$76 billion (Figure 6). For each of the four services, about 44% of the total opportunity comes from SMEs that said they would definitely consider banks to provide accounting and payments services.

FIGURE 6: Banks' Revenue Opportunity by Accounting and Payments Services



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

Nearly half (44%) of banks' revenue opportunity comes from small businesses with \$1 million to \$10 million in revenue, although these businesses comprise just 26% of the SME population. Small businesses with \$10 million to \$50 million in revenue account for 27% of the potential revenue demand but make up just 4% of all small businesses (Table B).

TABLE B: Banks' Revenue Potential for Small Business Accounting and Payments Services (\$ in billions)

Consider banks?	Use 3rd party provider?	Service	Small Business Revenue							TOTAL
			\$100k to \$249k	\$250k to \$499k	\$500k to \$999k	\$1m to \$4.99m	\$5m to \$9.99m	\$10m to \$19.99m	\$20m to \$49.99m	
Definitely	Currently outsource	Accounting/bookkeeping	\$0.67	\$1.71	\$2.52	\$7.37	\$5.03	\$5.91	\$2.78	\$26.00
		Invoicing	\$0.66	\$1.03	\$3.74	\$3.09	\$2.85	\$6.12	\$3.27	\$20.74
		Bill payment	\$0.52	\$1.36	\$2.15	\$5.80	\$5.30	\$5.46	\$3.36	\$23.95
		Payment acceptance	\$0.40	\$0.42	\$1.37	\$4.91	\$2.45	\$3.37	\$2.18	\$15.12
		Subtotal	\$2.26	\$4.51	\$9.79	\$21.17	\$15.63	\$20.86	\$11.59	\$85.81
	Don't currently outsource	Accounting/bookkeeping	\$0.36	\$1.32	\$1.86	\$5.14	\$2.76	\$2.85	\$1.93	\$16.22
		Invoicing	\$0.86	\$1.92	\$3.98	\$7.15	\$4.56	\$2.65	\$1.83	\$22.94
		Bill payment	\$0.98	\$2.11	\$2.92	\$5.34	\$3.53	\$3.23	\$1.32	\$19.45
		Payment acceptance	\$0.63	\$1.51	\$2.11	\$5.64	\$3.67	\$2.67	\$2.55	\$18.78
		Subtotal	\$2.82	\$6.86	\$10.87	\$23.28	\$14.52	\$11.41	\$7.63	\$77.38
Maybe	Currently outsource	Accounting/bookkeeping	\$0.85	\$2.63	\$3.45	\$6.00	\$3.60	\$5.30	\$2.17	\$24.00
		Invoicing	\$1.18	\$1.80	\$2.57	\$3.51	\$2.51	\$2.65	\$1.57	\$15.78
		Bill payment	\$1.11	\$1.81	\$2.15	\$4.58	\$3.40	\$3.64	\$1.92	\$18.61
		Payment acceptance	\$1.52	\$2.09	\$2.53	\$6.50	\$2.83	\$2.81	\$2.06	\$20.35
		Subtotal	\$4.67	\$58.33	\$10.71	\$20.59	\$12.33	\$14.40	\$7.72	\$78.75
	Don't currently outsource	Accounting/bookkeeping	\$1.75	\$4.34	\$3.06	\$10.29	\$3.96	\$3.46	\$2.05	\$28.90
		Invoicing	\$2.63	\$5.00	\$8.89	\$9.82	\$4.67	\$6.12	\$3.01	\$40.13
		Bill payment	\$2.68	\$6.18	\$5.38	\$9.92	\$5.17	\$5.05	\$2.28	\$36.67
		Payment acceptance	\$1.07	\$2.35	\$2.64	\$7.23	\$3.11	\$3.23	\$2.18	\$21.81
		Subtotal	\$8.13	\$17.87	\$19.96	\$37.25	\$16.90	\$17.87	\$9.52	\$127.51
TOTAL			\$17.88	\$37.57	\$51.34	\$102.29	\$59.38	\$64.53	\$36.47	\$369.4
PERCENT OF TOTAL			5%	10%	14%	28%	16%	17%	10%	

Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

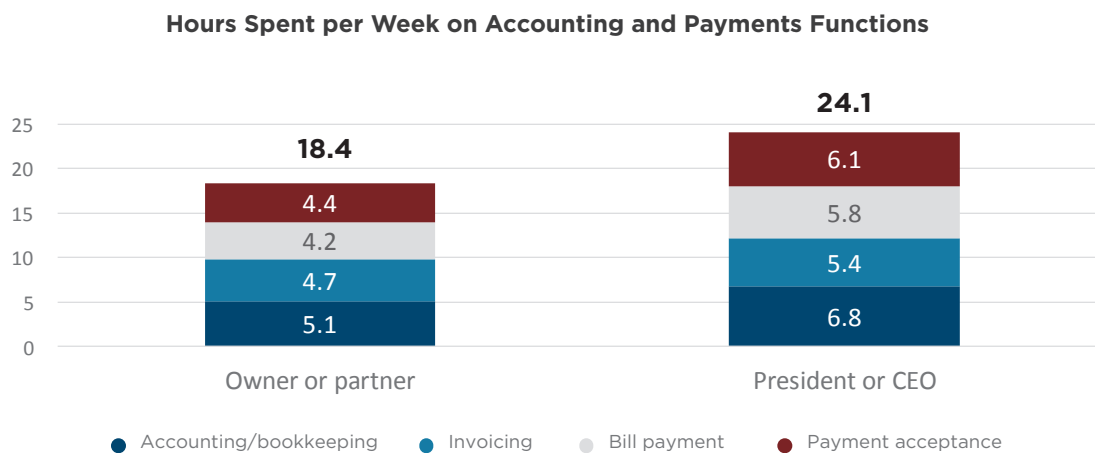
To win this business, banks must address small businesses' current accounting and payments issues, challenges and pain points.

SMALL BUSINESS ACCOUNTING AND PAYMENTS PAIN POINTS

SMEs need help with their accounting and payments functions—even those that currently rely on third-party providers for help. Banks looking to capitalize on the \$370 billion revenue opportunity should focus on helping small businesses overcome three pain points:

- **Time spent on accounting and payments functions.** On average, small business owners or partners spend more than 18 hours per week on accounting and payments functions, and presidents/CEOs spend more than 24 hours (Figure 7). We won't presume that they put in a 40-hour work week, but these numbers are still a big chunk of their time—and an opportunity for banks to demonstrate how they can help save small business executives time managing their companies' accounting and payments functions.

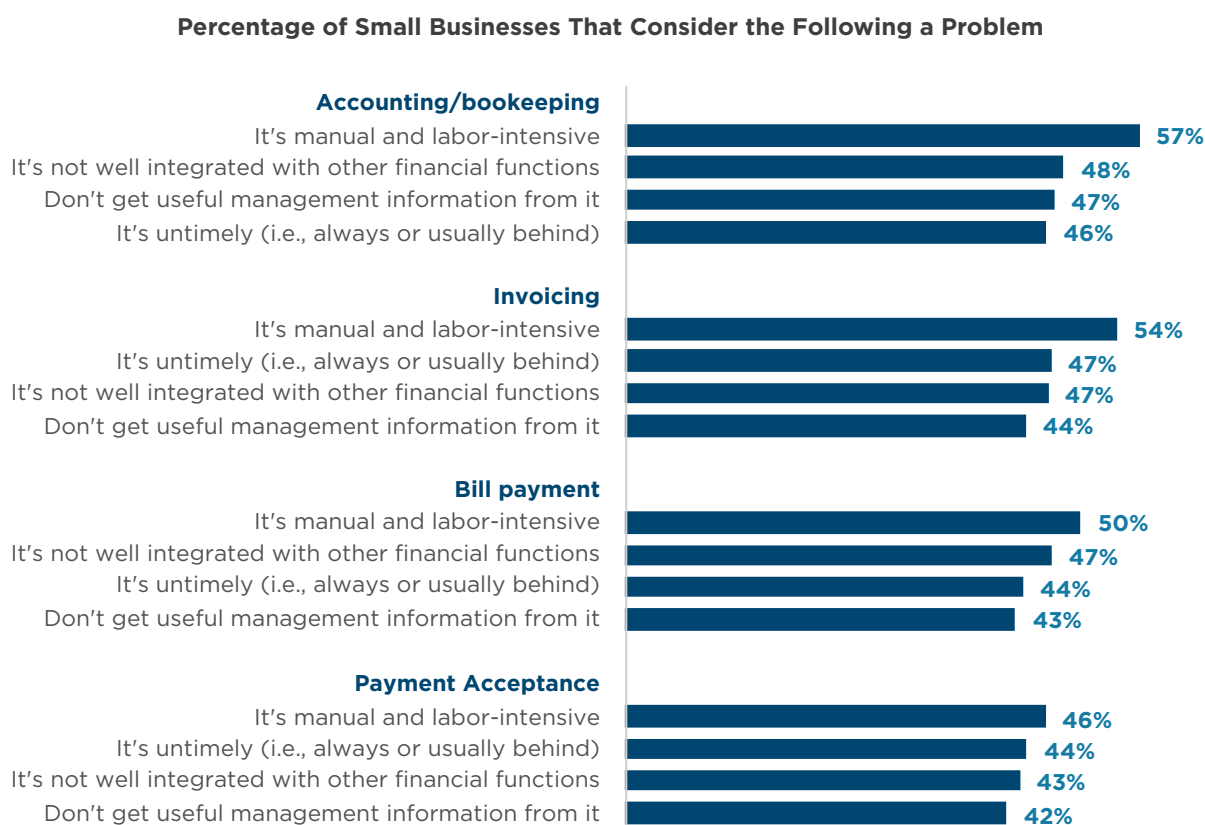
FIGURE 7: Time Spent per Week on Accounting and Payments Functions



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

- Accounting and payments efficiency and effectiveness.** Despite the widespread use of technology, many small businesses complain that accounting and payments functions are manual and labor-intensive. A lack of integration across financial functions and a shortage of useful management information also plague small businesses' accounting, invoicing, bill payment and payment acceptance processes (Figure 8).

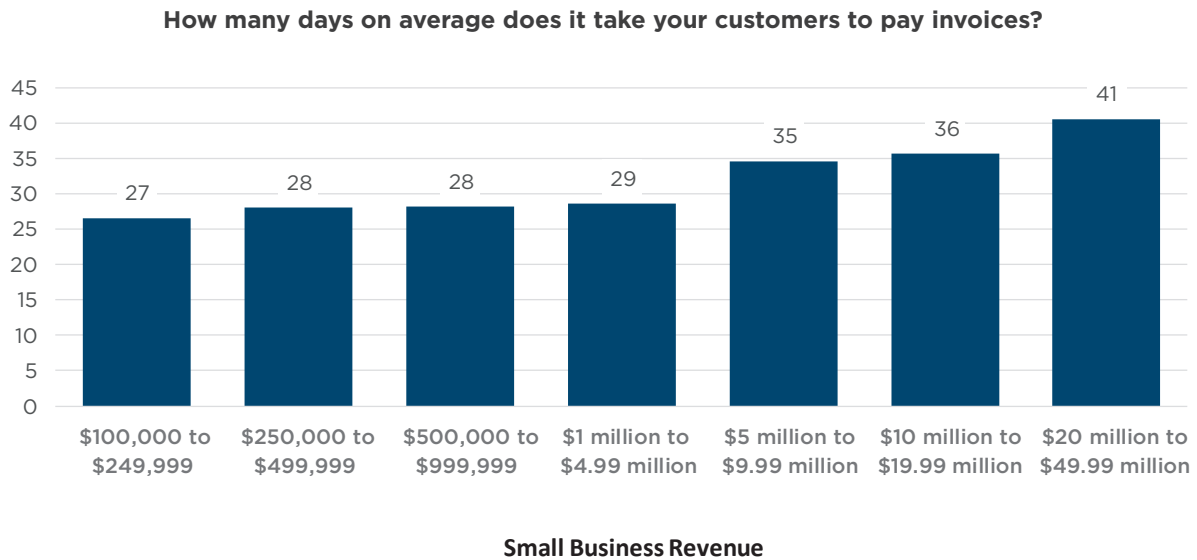
FIGURE 8: Small Businesses' Accounting and Payment Pain Points



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

- Receivables.** Days sales outstanding (DSO) average just under 30 for small businesses with less than \$5 million in revenue, climb to the mid-30s for SMEs with \$5 million to \$20 million, and grow to just over 40 for businesses with \$20 million to \$50 million in revenue (Figure 9). Many small businesses don't have real-time status of invoices, can't automatically send due date and overdue reminders, and can't electronically store copies of invoices for an audit trail.

FIGURE 9: Days Sales Outstanding



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

- **Payments proliferation.** Of 12 different payment types, more than half of small businesses accept nine or more payment types. The allocation of payment transactions is remarkably similar across small businesses of different sizes. Overall, card-based payments (Apple Pay, Samsung Pay, Square and other debit and credit cards) account for 40% of transactions, cash and check payments amount to 26%, and ACH transactions are 11% of the payments received by small businesses (Table C).

TABLE C: Percentage of Payments Received by Payment Type

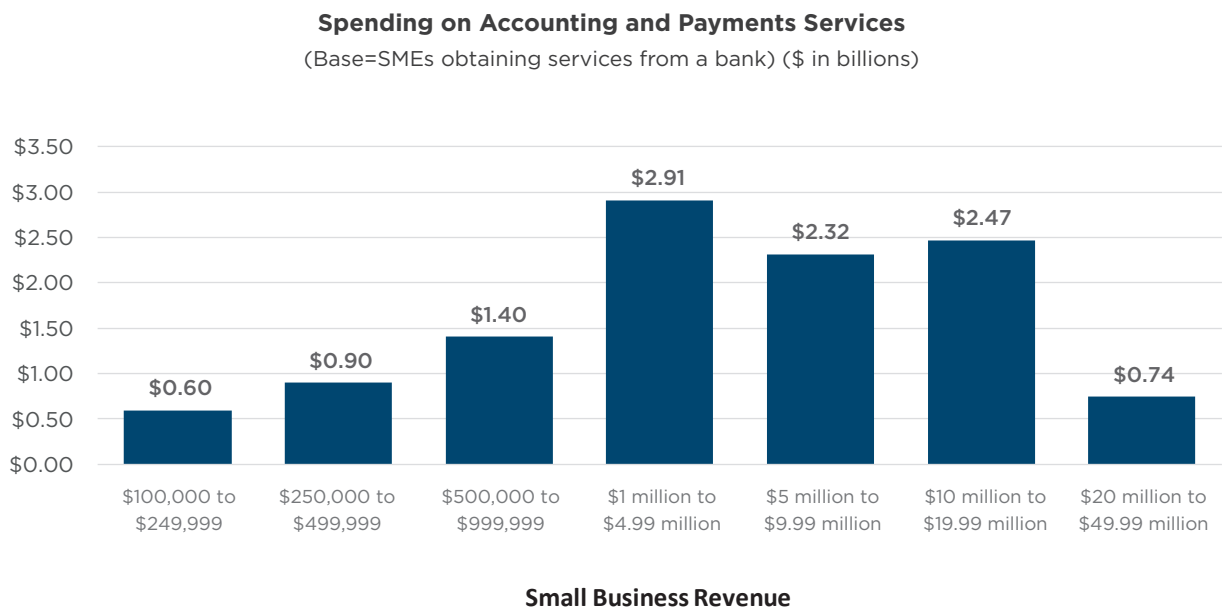
	Small Business Revenue						
	\$100k to \$249k	\$250k to \$499k	\$500k to \$999k	\$1m to \$4.99m	\$5m to \$9.99m	\$10m to \$19.99m	\$20m to \$49.99m
Cash	12%	11%	12%	12%	11%	10%	12%
Check	14%	14%	13%	17%	15%	12%	15%
ACH	9%	12%	9%	10%	11%	13%	13%
Apple Pay	5%	7%	4%	5%	5%	6%	6%
Square	6%	6%	7%	4%	5%	7%	7%
PayPal	9%	9%	10%	7%	8%	8%	8%
Venmo	6%	6%	5%	5%	5%	7%	5%
Samsung Pay	3%	6%	4%	5%	5%	7%	5%
Zelle	5%	6%	5%	5%	5%	5%	5%
Other credit card	14%	11%	14%	16%	13%	11%	13%
Other debit card	12%	8%	12%	11%	12%	11%	10%
Wire transfer	4%	5%	6%	4%	5%	2%	2%
TOTAL	100%	100%	100%	100%	100%	100%	100%

Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

THE CURRENT MARKET FOR BANK-PROVIDED ACCOUNTING AND PAYMENTS SERVICES

The 6% of small businesses that currently use banks for accounting and payments services spend \$11.3 billion. SMEs with revenue between \$1 million and \$20 million—which comprise 28% of small businesses—account for a little more than two-thirds of that total (Figure 10).

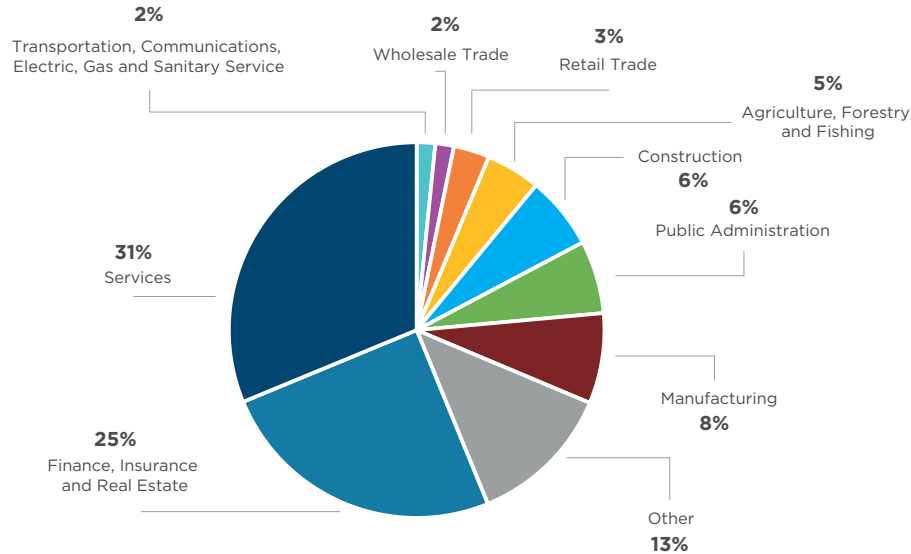
FIGURE 10: Small Business Spending on Bank-Provided Accounting and Payments Services



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

More than half of the SMEs getting accounting and payments services from banks are finance, insurance, real estate and other services providers (Figure 11).

FIGURE 11: Allocation of SMEs That Obtain Accounting and Payments Services From Banks by Type



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

A few large banks—as well as some community banks and credit unions—are benefiting from offering these services. Wells Fargo, PNC and Citizens Bank—as well as community banks and credit unions—have a disproportionate share of the current market for bank-provided accounting and payments services (Table D).

TABLE D: Banks’ Market Share of Accounting and Payments Services

	SMEs that don't obtain accounting and payments services from a bank	SMEs that obtain accounting and payments services from a bank
Bank of America	32%	22%
Wells Fargo	11%	16%
JPMorgan Chase	11%	9%
Community bank	7%	13%
PNC	2%	6%
Credit union	2%	5%
Citizens Bank	1%	5%

Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

Together, PNC and Citizens Bank have 3% of the market among SMEs that don't use banks for accounting services but are the primary banks for 11% of the SMEs that do obtain those services from a bank. Likewise, community banks and credit unions have a 9% share of the market among SMEs that don't use banks for accounting services, but an 18% share among SMEs that do (Table C).

RETENTION BENEFITS FROM ACCOUNTING AND PAYMENTS SERVICES

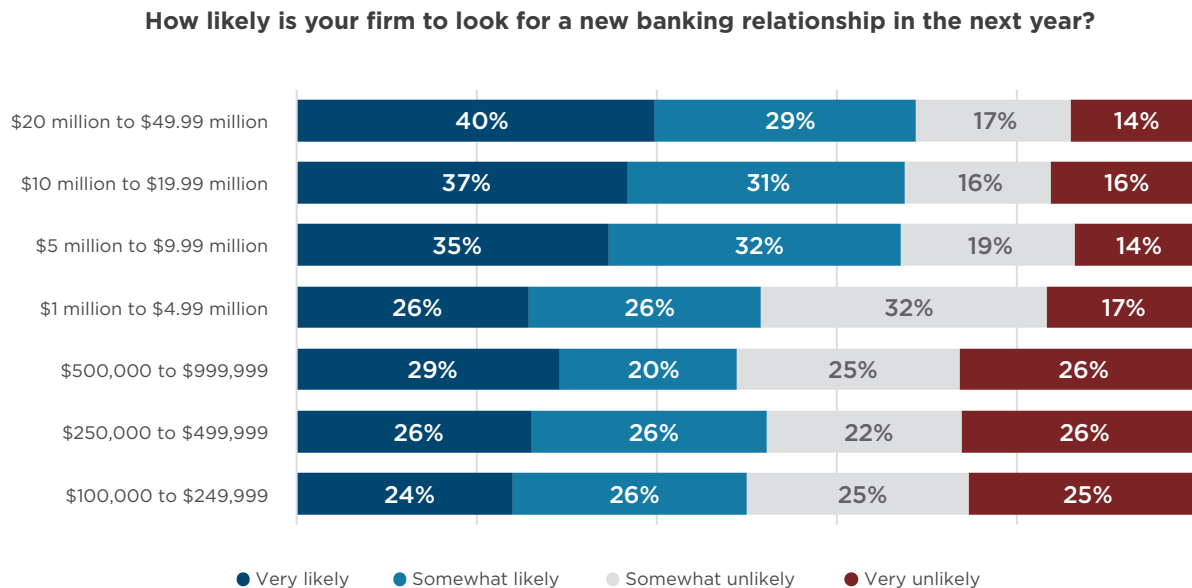
Among the 6% of small businesses that currently get accounting and payments services from a bank, the majority use their company’s primary financial institution.

We don’t know if becoming an SME’s accounting and payments provider caused a small business to change its banking allegiances. But we do believe that providing accounting and payments services to existing small business customers will help banks: 1) solidify that relationship and 2) attract new small business banking customers.

Both of these are important objectives for banks—or, at least, they should be.

An alarmingly high percentage of small businesses say they are likely to look for a new banking relationship in the next 12 months. This is especially true among SMEs with more than \$5 million in revenue, among which nearly seven in 10 said they were somewhat or very likely to look for a new bank (Figure 12).

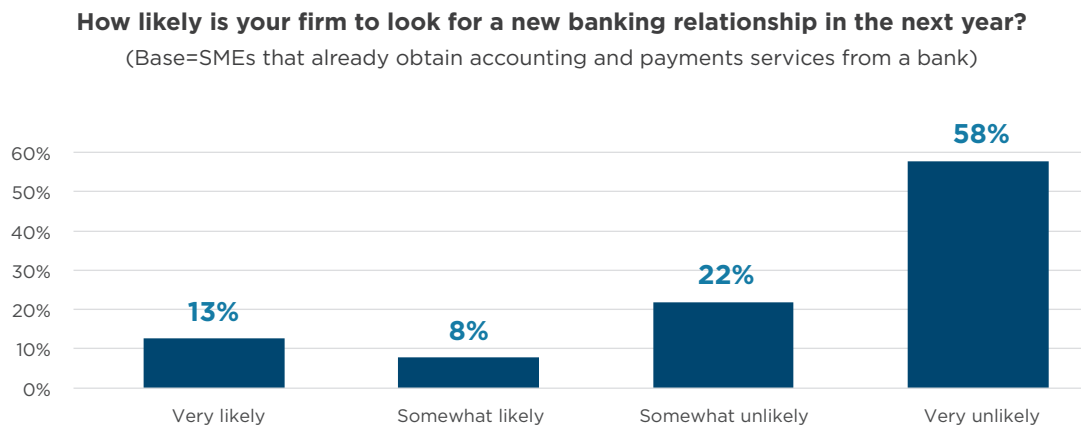
FIGURE 12: Small Business Likelihood to Switch Banks by SME Revenue



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

The picture is very different among small businesses that already obtain accounting and payments services from a bank. Among these SMEs, just one in five are somewhat or very likely to look for a new relationship, and almost six in 10 say they're very unlikely to do so (Figure 13).

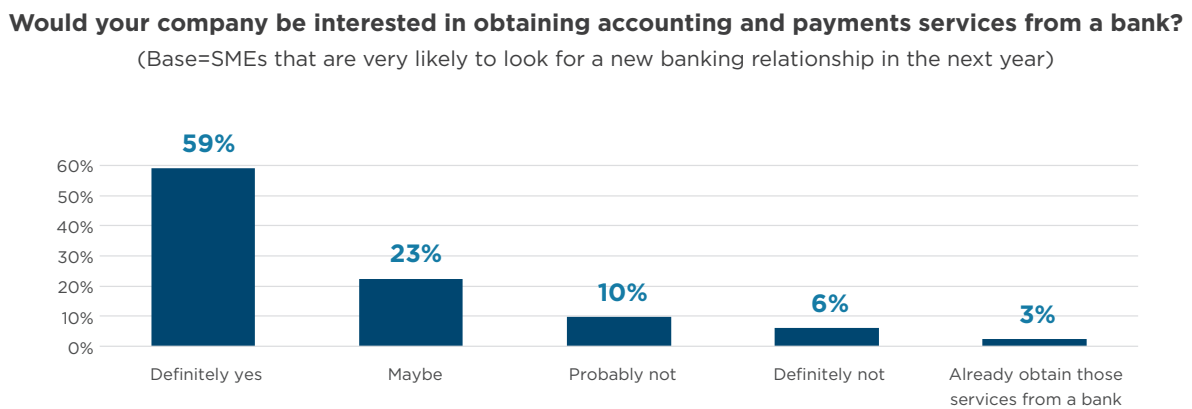
FIGURE 13: Small Business Likelihood to Switch Banks



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

In addition, of the SMEs that are very likely to look for a new banking relationship in the coming year, nearly 60% said they would definitely be interested in getting accounting and payments services from a bank (Figure 14). Providing those services might be what it takes to get them to make the switch.

FIGURE 14: Interest in Bank-Provided Accounting Services from Potential Switchers



Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

LENDING OPPORTUNITIES

Small businesses that expressed a definite interest in obtaining accounting and payments services from a bank represent lending opportunities for banks. Among these SMEs, 62% intend to borrow an average of nearly \$2 million in the next two years. That percentage and dollar amount is nearly twice the number and percentage of SMEs that might consider banks for accounting services (Table E).

Compared to other small businesses, a larger percentage of those that would definitely consider banks for accounting services would consider their primary bank for a loan and would prefer to use their primary banks for their borrowing needs.

TABLE E: Lending Opportunities From SMEs by Interest in Bank-Provided Services

		SME interest in obtaining accounting and payments services from a bank			
		Definitely yes	Maybe	No	Already do
Intend to borrow in the next two years		62%	32%	21%	16%
Amount expected to borrow in next two years (\$ in millions)		\$1.992	\$1.088	\$1.880	\$2.598
Which of the following sources will your company consider borrowing from for the loans you expect to apply for in the next two years?	Primary bank	85%	75%	64%	90%
	Another bank	43%	37%	44%	50%
	Online lender	37%	29%	21%	20%
	Other source	3%	11%	6%	10%
Which of the following sources would your company PREFER to borrow from for the loans you expect to apply for in the next two years?	Primary bank	69%	62%	51%	60%
	Another bank	16%	21%	25%	10%
	Online lender	11%	10%	21%	20%
	Other source	1%	5%	2%	10%
	No preference	3%	3%	0%	0%

Source: Cornerstone Advisors survey of 1,265 small business owners and executives, Q1 2020

CAPITALIZING ON THE \$370 BILLION OPPORTUNITY

In 2018, Amazon jolted the banking industry by announcing that it had provided \$1 billion in cash advances to merchants selling on the firm's platform in 2017. Industry pundits jumped on this news as proof that Amazon was getting into banking and would disrupt financial institutions.

The more important question to consider is why so many merchants turned to Amazon for cash advances instead of looking to their banks for other funding options. The answer is data. Amazon had data about merchants' cash flow and perspective on how any individual merchant's business performance compared to other merchants in that particular space.

Armed with that knowledge, Amazon could offer cash advances to merchants that were most worthy of the advances and do so before the merchants even requested them.

Banks must become embedded into small businesses' everyday operations in order to achieve the speed and agility needed to compete with new competitors.

Monthly phone calls to small businesses that inquire "how are things going?" aren't going to cut it. Banks need to bundle small business back office and merchant services with the more traditional deposit management and lending services they already provide. These services provide a win-win for both the bank and small business:

- Integrating online receivables to a standard small business checking account makes the account much more valuable for the small business and more profitable for the bank.
- Digital bill pay combined with an automated bookkeeping entry helps small businesses eliminate: 1) the time it takes for batch reconciliation or 2) the cost paid to a bookkeeper. Banks benefit because small business owners are willing to pay for the service.
- A common deposit transaction is more valuable to a bank when it is applied to a small business' profit and loss (P&L) statement, and more convenient for small businesses when they can use an integrated financial reporting tool within a bank's loan application.
- Every small- and medium-size business will need its own ecommerce platform moving forward, not just Amazon sellers. A contractor that does a job in person will benefit from managing the receivable process and record keeping online just as much as someone that solely transacts online.

The opportunity for financial institutions to meet small businesses' digital back office needs can deepen relationships with small businesses and tap into a new, lucrative source of revenue.



ABOUT

CORNERSTONE ADVISORS



Backed by a multidisciplinary team that has spent hundreds of thousands of hours in the trenches with clients, Cornerstone Advisors delivers consulting services, industry insights and executive forums focused on helping financial institutions improve profitability and elevate performance quickly and efficiently. Guided by the philosophy that you can't improve what you don't measure, Cornerstone helps clients develop more meaningful business strategies, negotiate better vendor contracts, make smarter technology decisions and strategically re-engineer critical processes.

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Autobooks is an all-in-one small business product suite that helps financial institutions increase deposits, differentiate their digital banking experiences, and better serve small businesses that struggle with cash flow and financial management. Autobooks integrates directly inside the financial institution's digital banking channels so a business owner can simply send invoices, collect online payments, automate accounting, and gain access to financial reporting from the same login they use to manage their traditional banking services. In addition to making it simple for the business owner, Autobooks makes it simple for financial institutions by offering pre-built integrations for the nation's leading core platforms, digital banking providers, and merchant processors.

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