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# Small Business Banking in 2021

As part of our latest market outlook report for small business banking, we are predicting enhanced opportunities for financial institutions to provide products and resources for growth within the small business market. Following the dramatic downturn in 2020, we have seen many small businesses struggle or shutter their doors entirely due to losses in revenue, disrupted supply chains, delayed payments and reduced customer demand. The road to recovery is long, with small businesses reporting that revenue, profitability and employment have nearly halved in 2020. Thus, small business customers represent a huge opportunity for banks – financial institutions must understand the challenges they face **as it's now more important than ever for financial institutions to provide the digital access to banking services that help small businesses survive and thrive.**



Bottomline, a leader in intelligent engagement solutions for small business banking has compiled research from respected third-party sources, government data, and our own experience in the industry in order to complete this market outlook report. This report is intended to be a reflection on the current state of small business banking, as well as a look at where it is headed in the next few years, including:

- The massive economic toll that the pandemic has taken on small businesses
- Predictions for the future and the challenges small businesses will be facing next
- How to prepare your financial institution to take advantage of the massive small business opportunity and the changes it will bring.

## Small Businesses Need Help in Order to Survive

We expect that the following months will bring a focus on recovery and development for small business owners and their ventures. Finding their way back to a sense of “normalcy”, however, will likely be grueling — nearly two-thirds of small businesses report that they have been negatively impacted by the pandemic<sup>1</sup> and upwards of 75% only have enough cash on hand to last 2 months or less. And, there are likely even more challenges ahead.<sup>11</sup> These financially strapped businesses are in desperate need of cash, services and guidance to survive the coming months.

A Q4 2020 [MetLife & U.S. Chamber of Commerce Small Business Index \(SBI\)](#) report finds that half of small businesses anticipate operating for a year or less in the current business climate before having to permanently close.

This means that in addition to the many federal programs available to small businesses, there is also ample untapped opportunity for financial institutions to provide accounting and payments services to small and medium-sized enterprises. Experts predict that the sum of this opportunity may represent a staggering \$370 Billion.

## 2021 Predictions for Small Businesses – And the Banks that Serve Them

While the arrival of 2021 has brought hope and new beginnings for some, small business owners still have some unprecedented challenges to overcome. Financial institutions must be prepared to rise to their aid, acting as “economic first responders”, helping these business owners to optimize their operations.

**“I think this crisis has really solidified the role that community banks have in sustaining our small business communities”** Jill Castilla, President and CEO of Citizens Bank of Edmond, explains in **Bottomline’s Helping Banks Help Small Businesses video series**. **“We are always aware of how a small business can optimize their cash flow, so we are digging into their balance sheet and seeing what their payables look like, their receivables, and whatever expenses, and we are always trying to help them optimize their operations.”**

For banks, perhaps the most critical aspect of attracting small businesses is understanding their challenges enough to become an advocate for them.

**“They want to know who’s on their team,”** Castilla says, **“more so than anything else. More so than the rate, or what products or services you have... they really want someone on their team and the more you can demonstrate that publicly and privately, the better off you’ll be.”**



Bottomline expects six big trends to impact small businesses and their partner banks in 2021:

# 1

## **THE PUSH FOR DIGITAL TRANSFORMATION IN THE SMALL BUSINESS SPACE WILL ACCELERATE.**

During the height of the pandemic, companies globally were forced to close down or limit access to physical offices, encouraging or mandating employees to work from home. As small businesses and their customers continue to practice social distancing, it's likely that small business owners will find an enhanced need to take their offerings to the digital arena while homebound consumers spend record amounts of time online in an effort to limit their face-to-face interactions. Perhaps even more critical, businesses operating during a pandemic must be able to conduct their banking remotely as well – and their financial institutions must be ready to meet them there.

Still, a recent [Digital Banking Report](#) indicates that the vast majority of financial institutions are ill equipped for an urgent and mass migration to the digital channel. Financial institutions that have taken steps to initiate a holistic transformation from the inside out, rather than solely focusing on front-end enhancements, will have a distinct competitive advantage.

# 2

## **SMALL BUSINESSES WILL EXPECT FINANCIAL MANAGEMENT SOLUTIONS THAT FIT THEIR SPECIFIC NEEDS.**

As small business owners are becoming more tech savvy in their personal lives, their business technology needs are evolving as well. Still it seems that financial institutions are not innovating rapidly enough to suit these growing small business banking demands. In a sense, business owners are still often “stuck” between consumer retail offerings that are too simple for small business needs and commercial and treasury products that are too complex and expensive. Consumer and basic business checking account offerings are just not enough while many commercial products and services are unsuited for most small businesses, often resulting in fees for products and services that sit unused or just aren't a good fit.

Savvy FinTech startups have capitalized on this pain point and have begun to directly target the small business market. There are now more than 140 fintech startups serving SMBs and entrepreneurs.<sup>iii</sup> To compete with this emerging threat, financial institutions prioritize providing to provide small business-specific offerings such as cash flow visibility, invoicing, receivables, electronic payments, accounting and financial management, among others.

# 3

## **DATA-DRIVEN STRATEGIES ARE EVEN MORE CRITICAL.**

The pandemic has proven that small businesses must have a handle on their cash flow to not only to spot signals of financial weakness and risk of failure, but to also have the ability to quickly respond to adverse events. Still, a single view of all of the company's finances often isn't readily available, and small business owners have come to resent the amount of time it takes to present the company's plans and alternative scenarios when faced with either an expansion or market downturn.

Small businesses are desperate for a unified, single view where business users are able to manage all of their cash positions in one place, hence reducing the barriers of collecting and combining data from multiple systems, while also helping businesses to optimize their cash by delivering predictions and actionable insights that support their specific needs.

## 4

#### **ALTERNATIVE AND CONTACTLESS PAYMENT OPTIONS WILL CONTINUE TO RISE.**

While consumers shifted their buying habits from in-person to e-commerce channels (Black Friday shopping numbers, for example, were down by half from 2019 with online spending up 22%), consumers that braved shopping indoors weren't whipping out their wallets as often as they used to. In their annual State of Retail Payments study, [the National Retail Federation](#) found that no-touch payments (e.g. contactless credit and debit cards or mobile pay) for retailers have increased 69% since January.<sup>iv</sup> Capgemini [research](#) conducted during the height of the pandemic found that 41% of consumers said they used contactless cards for the first time during the crisis, of these new contactless payment users 31% utilized a challenger bank. For those outside of retail, electronic invoicing, request for payment/real-time payments, and electronic payment acceptance will likely see an uptick. Most notably, experts predict that these touchless payment options will continue to be utilized longer term, post-pandemic.

## 5

#### **THE THREATS OF FRAUD WILL INCREASE.**

The change in business processes and operations that has shifted work remotely, presents a unique opportunity for fraudsters. As business continuity plans are implemented, internal controls and practices present new points of failure that can more easily be compromised – oversight and security may not be what they would be in the office. Google's Transparency Report found the number of phishing websites, increasingly linked to Business Email Compromise scams, spiked from just over 20,000 in early March to nearly 60,000 by the end of May.<sup>v</sup> For example, a small business employee might use a personal computer for work, get phished and hence put the company's information at risk.

On top of this, experts predict that new account and payment fraud will continue to rise at an alarming rate as the economic impact of COVID continues. Banks must manage risk for both themselves and their small business customers – most notably via a risk and fraud platform that is embedded directly within the account opening platform and payments platform – that blends seamlessly with funding risk management and other fraud prevention technologies will ensure the necessary checks and balances happen behind the scenes and do not impact the overall customer experience, even as attacks ramp up.

## 6

#### **SMBS WILL TAKE ADVANTAGE OF STATE AND FEDERAL ASSISTANCE PROGRAMS (AGAIN).**

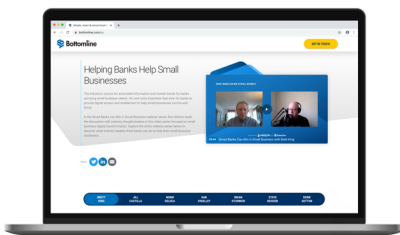
For many small businesses during 2020, the Paycheck Protection Plan (PPP) was a much needed government life line, providing nearly \$330 billion in government loans, accounting for nearly 60 percent of the total loans and saving an estimated 33.7 million jobs.<sup>vi</sup> Those that did not take advantage of the first phase of the PPP may be looking for funds this time around (or may be applying again, if they qualify) as the SBA reopened the PPP program in early January. Additional businesses may qualify this time around that were left out previously – the business must have no more than 300 employees (down from the 500-employee threshold in the first round). Individual states may have expanded assistance programs, as well.

Banks must again be prepared to handle these applications, simplifying the application process and reducing as much friction as possible within the small business loan request workflow. Financial institutions may even consider payment distribution systems to accelerate loans via the Real Time Payments network.

# Small Businesses Depend on Their Bank

Many small businesses, under-served by their banking partners, are increasingly turning to larger banks, with more robust digital capabilities, or to emerging fintech challengers with more compelling value propositions.

- At least 35% to 40% of small businesses continue to be served on consumer or consumer-like banking platforms.<sup>vii</sup>
- 42% of community banks do not feel that their current business banking/cash management platform effectively meets the online banking needs of businesses generating US\$10 million or less in annual revenue. That number soars to 61% for businesses larger than US\$10 million in revenue.
- 50% of small businesses are likely or somewhat likely to replace their business banking/cash management solution over the next 2-3 years.



For additional information and resources about providing the digital access and enablement to help small businesses survive and thrive visit **Helping Banks Help Small Businesses: A Bottomline industry source** providing actionable information and market trends for banks servicing small business clients.

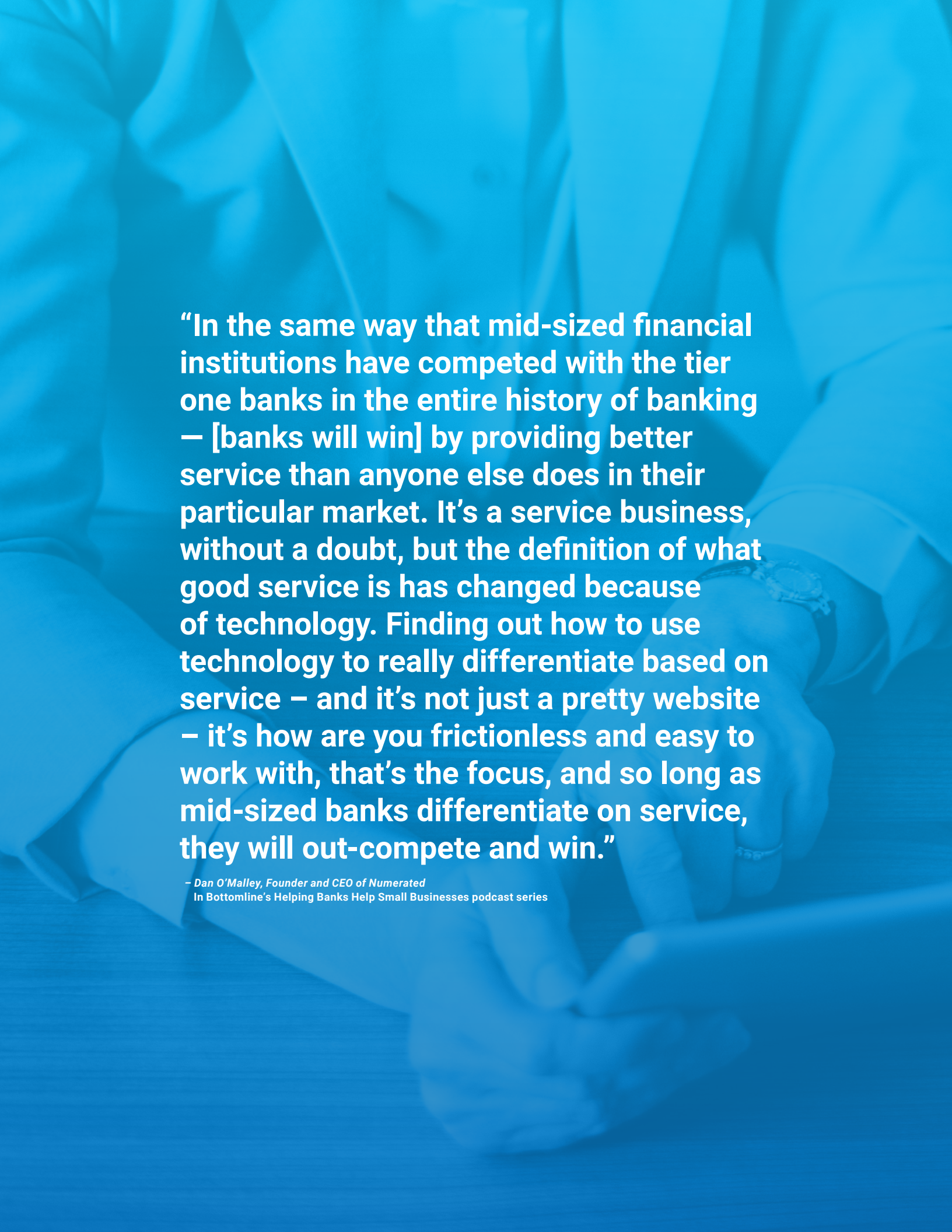
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A recent report from Ron Shevlin of Cornerstone Advisors and Autobooks, shows that many small business owners and executives — especially those from larger SMEs have expressed interest in getting accounting and payments services from a bank. Roughly 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. In total, the report predicts that the Covid-19 crisis and the resulting impact represents a staggering \$370 Billion opportunity to provide accounting and payments services to small and medium sized businesses.<sup>viii</sup>

The opportunity for banks to compete (and to win) in this massive opportunity against challenger banks and fintechs comes down how financial institutions will utilize technology in order to reduce friction, expand services, and improve user experience for small business clients.

## The Bottomline

If financial institutions align their strategies with the information and best practices provided in this report, they can both accelerate small business growth and recognize the opportunity in front of them. The next steps are clear: financial institutions must utilize technology in order to provide solutions to better serve and monetize their small business banking relationships — or risk losing them to non-bank providers or emerging FinTechs.



**“In the same way that mid-sized financial institutions have competed with the tier one banks in the entire history of banking – [banks will win] by providing better service than anyone else does in their particular market. It’s a service business, without a doubt, but the definition of what good service is has changed because of technology. Finding out how to use technology to really differentiate based on service – and it’s not just a pretty website – it’s how are you frictionless and easy to work with, that’s the focus, and so long as mid-sized banks differentiate on service, they will out-compete and win.”**

*– Dan O’Malley, Founder and CEO of Numerated*  
In Bottomline’s Helping Banks Help Small Businesses podcast series



- <sup>i</sup> ÅRville, Peter. Mercator Advisory Group. (July 30, 2020) U.S. Small Businesses are Reeling as a Result of COVID-19. Mercator Advisory Group. [https://www.mercatoradvisorygroup.com/Reports/U\\_S\\_Small-Businesses-are-Reeling-as-a-Result-of-COVID-19/](https://www.mercatoradvisorygroup.com/Reports/U_S_Small-Businesses-are-Reeling-as-a-Result-of-COVID-19/)
- <sup>ii</sup> PNAS. (July 28, 2020). The impact of COVID-19 on small business outcomes and expectations. <https://www.pnas.org/content/117/30/17656>
- <sup>iii</sup> Macri, Kate Patrick. Banking Dive. (February 28,2020). Fintech focuses on small businesses, ramping up competition with big banks. <https://www.bankingdive.com/news/fintech-SMB-small-businesses-competition-big-banks/573205/>
- <sup>iv</sup> Lesonsky, Rieva. Disrupting the Payments Industry. Score. (October 13, 2020). <https://www.score.org/blog/disrupting-payments-industry>
- <sup>v</sup> Google's Transparency Report. <https://transparencyreport.google.com/safe-browsing/>
- <sup>vi</sup> J.D. Power Report, U.S. Small Business Banking Satisfaction Study. <https://www.jdpower.com/business/financial-services/us-small-business-banking-satisfaction-study>
- <sup>vii</sup> Berry, Christine. Aite Group. (April 16, 2020).The Higher Urgency for Small-Business Receivables Tools in the Wake of COVID-19. <https://aitegroup.com/report/higher-urgency-small-business-receivables-tools-wake-covid-19>
- <sup>viii</sup> Shevlin, Ron. Cornerstone Advisors. The \$370 Billion Small Business Opportunity for Banks. <https://info.autobooks.co/ron-shevlin-small-business-banking-report>



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#### About Bottomline

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