



Small business is #trending

Are banks ready to provide
a fresh menu of services?

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Executive summary

Are banks ready to provide a fresh menu of services to small businesses?

Over the past decade, technology has helped reduce many of the biggest barriers to starting a small business. At the same time, TV and social media have popularized small business ownership—and put on full display the ease of making income via non-brick-and-mortar businesses. Anyone with a computer or mobile phone truly has the opportunity to become a social media influencer, own a Shopify or Amazon e-commerce business, or set up a freelance or consulting business.

Even motivations for kick-starting a small business have changed, with work/life balance and social impact often holding equal importance with wealth creation. Given these shifts, banks are taking a fresh look at their products and delivering new options that tap into the spirit of today's small business surge. Banks with a more intimate understanding of current trends can deliver customized products to match new entrepreneurial agendas—and stay a step ahead of competitors.



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Starting a small business is #trending. Why so popular today?

Starting a small business is #trending. Why now? This category of entrepreneurship has become immensely popular for a variety of reasons: limited barriers to entry, entirely new products and services, changing labor force models, high demand for individual supplemental income, and business opportunities created by the pandemic.

Why is small business trending?

- 1. Limited barriers to entry:** Small businesses comprise the majority of businesses in the United States. In 2021, the number of small businesses reached 32.5 million, making up 99.9% of total US businesses.¹ Additionally, the pathway to opening a new small business often has limited barriers to entry as it takes only four days to open a small business, and approximately 33% get started with less than \$5,000.²
- 2. New products and services:** One of the most critical indicators in determining the readiness and needs a small business has for online solutions is its uptake of technology. Many are utilizing online tools in their marketing strategy to reach their customers. For instance, 66% of small businesses in the US use Meta for advertising.³ As small businesses expand in their usage of online tools to do business, banks should be prepared for changes in expectations of online offerings.
- 3. Changing labor force models:** The rise in popularity of self-employment and the gig economy is a critical evolution of the small business space. The actual size of the self-employed workforce has

been difficult to pin down, considering self-employment is a part-time gig for many individuals with separate, full-time employment. However, estimates indicate that a total of 44 million self-employed professionals operate within the United States.⁴ This growth in the self-employed workforce is expected to continue as the gig economy expands and more Americans look to support themselves in part or in full through self-employment.

- 4. High demand for individual supplemental income:** Expansion of self-employment has been accelerated in part by COVID-19 and its effects on today's job market, giving rise to self-employment trends that are expected to continue.⁵ Weak income growth for many Americans during the pandemic motivated workers to search for additional income opportunities, often found in the form of self-employment and the gig economy.

Additionally, the massive virtual shift necessitated by the pandemic resulted in the development and growth of web and mobile applications that allow workers to add new revenue streams—whether that be from rideshare, repair, or any other number of hired services.⁶

- 5. Business opportunities post-pandemic:** The pandemic has not only provided a catalyst for many individuals to seek out self-employment options, but it has seen the development of online platforms that make it both easier and more practical to do so. The self-employment shift in the small business space should be of particular interest to banks. As many traditional W-2 employees transition into self-employed gig workers or establish small businesses, opportunities are abundant for financial institutions to help customers navigate the acquisition of banking products. These newly minted small businesses will evolve and grow over time, from business creation to the acquisition of financial service products.

Small businesses make up 99.9% of total US businesses, and approximately 33% of them started with less than \$5,000

Small business startups want banking products. Why make it so hard?

The small business banking experience is currently fragmented and typically requires in-person interactions, even for simple banking needs. This presents an opportunity for banks to overhaul their processes and capitalize on a pivotal moment to acquire new customers, all while staying compliant with regulations.

How banks make it hard

A study performed by Deloitte in 2020 on how COVID-19 proved the importance of being digital found that 34% of businesses have increased their use of online or digital tools since the beginning of the COVID-19 pandemic.⁷ However, there are barriers to small businesses in acquiring financial services online. Deloitte most notably has observed:

- The majority of traditional banks have little functionality set up for small businesses to open accounts or acquire lending products online. Digital applications that are available tend to fall short of user expectations and serve primarily as customer inquiry and initial app intakes, with banker follow-ups proceeding later to discuss additional requirements.
- A surprisingly high number of traditional banks require an in-person consultation to open small and medium banking (SMB) deposit accounts and credit cards.

- Many banks that have enabled online account opening for small business customers have not invested beyond the account opening experience, leaving the door open to fintechs that provide additional capabilities.
- Before COVID-19, physical bank branches had declined by 6.5% from 2012, and by 2034 there are projected to be less than 16,000 branches in the United States, down from 94,725 in 2014.⁸

Considering the digital small business wave in context, there is a bottleneck at the point of deposit account openings in today's banking marketplace for these new businesses and "solopreneurs." Fintech disrupters have not only solved for account openings but also deeper capabilities for managing the operational finances of a small business.

A small business experience story

In today's marketplace, a realistic experience for a small business startup might play out as follows. Meet "James, the social media influencer." James has devised a plan to build a 360-degree brand around surf culture and traveling. Overnight, he completes his business filing and receives a tax ID number. He is now ready to open a business account and credit card. He has been banking with Bank X his whole life (passed down from his family), but he is interested in seeing what else the marketplace has to offer. As he investigates various banks for small business products, he finds a fragmented experience from bank to bank. Some banks provide informational help around his small business needs, while others have no presence whatsoever. This is surprising considering he is looking at very familiar banks, both national and local.

Once James has decided on the bank of his choice, he begins the application process to open a checking account. Upon completion of the application, to his dismay, he discovers it is not an application but a simple inquiry. The bank has informed him that a banker will get in touch with him shortly to help complete the process. James must now wait for the bank to contact him.

Days go by, and he finally receives a voicemail. As he listens, he hears a relationship banker on the other end who has his deposit application and is ready to help James with next steps. They'll need to schedule an appointment to meet in person at a local branch. Unfortunately for James, all that was left on the voicemail was a phone number. James calls and discovers the relationship banker is out. He gets the banker's voicemail and leaves another message. The back and forth ensues for a whole week.

Finally, once James reaches the relationship banker, a meeting is scheduled. Finding a time was difficult, given James has a day job and will need to plan a visit to his local branch a few miles away. He now needs to rearrange his schedule. James prepares all the necessary documentation and prints everything out. He arrives to meet the relationship banker and after two hours he finally has a small business debit card!

This story paints a gloomy picture of the account opening experience many small businesses encounter simply to set up a deposit account. Unfortunately, this is the reality of the small business marketplace today for a majority of banking institutions. Even the best experiences require telephone interaction and submission of documents before account opening can ensue. Beyond the hurdles James encountered, there could have been further exasperation caused

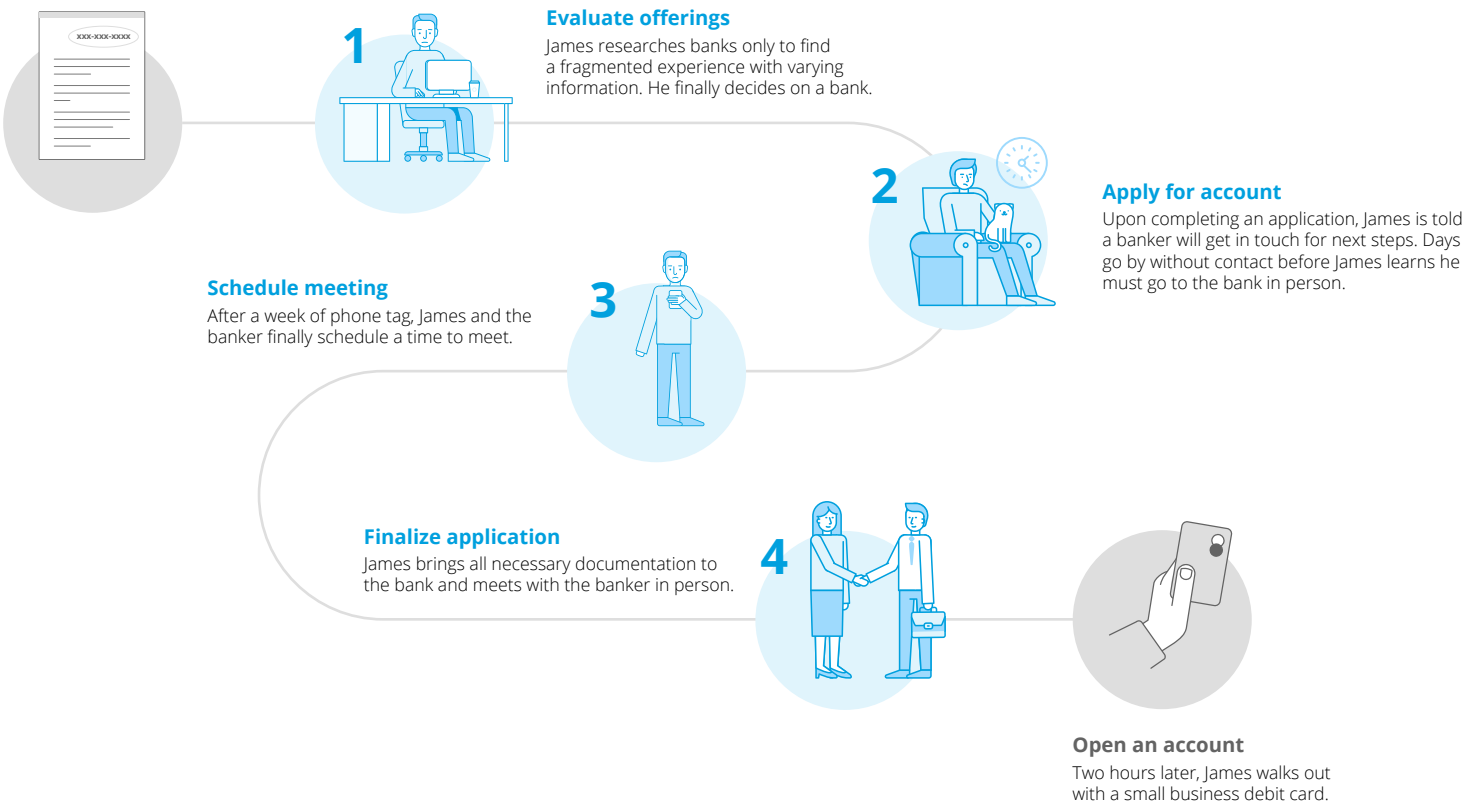
by the very nature of person-to-person interactions required. What if James forgot to print his documents? What if James had another business partner and had to coordinate his partner's schedule in addition to his own? Addressing these realities will require a massive overhaul to be in line with the digital speed of other experiences small business entrepreneurs are encountering.

The new wave of small business presents a generational moment of customer acquisition in which banks stand to win or lose the lifetime reward of providing financial services to that business.

Scenario 1: The current process takes 1 to 2 weeks and involves a trip to the bank

Register a business

James, a social media influencer, completes his business filing and receives a tax ID number.



What experiences do small businesses expect?

Building a digital experience needs to focus on delivering the small things right, removing the need to meet in branch.

Next-generation small business experience

The small business customer is unique: They sit between a retail banking customer and a larger commercial banking customer, on the spectrum of complexity. Like a retail customer, the small business owner navigates life and business events where banks are needed at the ready to support their success. However, this is particularly challenging, since myriad industries and market dynamics present so many opportunities and challenges for banks to demonstrate they understand their clients' needs.

Deloitte believes building an effective customer experience for small and medium-sized enterprises (SMEs) requires attention to deliver the following:

1. Instant time to decision

Deloitte's 2019 SMB Survey found large and midsize banks take two to three weeks to deliver a decision on a small business loan, compared to online or alternative lenders that take 24 to 48 hours. Deloitte recognizes top-tier SMB underwriting shops can complete the service of app intake to final decision in under an hour; still, this is not consistent across the industry. Even

best-in-class small business lending credit departments that champion accelerated turnaround times have acknowledged a strong desire for improved digital customer experiences, coupled with fully integrated middle- and back-office platforms. Deloitte's research has identified that not one traditional US bank has the online capabilities to provide a straight-through small business loan application for either unsecured or secured loans with an instant decision or offer to the customer.

2. Experiences driven by SME growth journey

The SME growth journey is consistent with how the retail business views the lifetime value and journey of a retail customer. On the retail side, banks cater to customers from early adolescence and college through major life events and wealth accumulation. All experiences should be considered in the context of the SME growth journey from the business owners' point of view—from big idea to business entity creation, networking, operational standup, financial health monitoring, and growth. Within any of these SME journeys, there are multiple events that present opportunities to delight your customers.

3. Speed, convenience, and transparency

- Customers have received a firsthand view into how banks responded to small business lending needs from the Paycheck Protection Program (PPP). According to the J.D. Power 2020 US Small Business Banking Satisfaction Study, overall small business banking customer satisfaction climbed to a record high in 2021 on the back of the PPP. However, while overall performance is strong in this sector, there are some gaps, with the smaller businesses in the study having significantly lower satisfaction scores than their larger small business counterparts.⁹
- A major reason for the gap in satisfaction was the lack of transparency in the products being offered. In a 2019 study done by the Federal Reserve, the top complaints all revolved around lack of information, confusing terminology, and feeling the bank was not upfront about the fine details that often either were not presented to them or were listed in the footnotes.¹⁰

- SMEs desire speed and convenience but won't sacrifice trust and transparency from their lenders.
- Digital journeys are even more important now but must be coupled with human personalization to satisfy the complexities of regulatory requirements within business banking.
- The aftermath of PPP has demonstrated to small business customers that digital experiences are possible in this space, and they will desire these even more going forward.

4. Niche small business offerings

The situation faced by James, the social media influencer, shows how current small business banking offerings don't meet the needs for the types of businesses being created in the new digital economy. Neobanks such as Brex have built strong foundations to provide niche offerings around e-commerce, but this strong foundation allows them to also cover broader customer needs beyond simple deposits. By providing niche small business offerings that serve these new types of businesses, banks have the opportunity to build out broader segment offerings.

What is an achievable digital experience for SME banking as an MVP?

Deloitte's perspective on building a valuable SME proposition focuses on delivering the small things right, while carefully integrating third-party vendor APIs to excite customers. Experiences today need to be focused on providing a digital experience that removes the need to meet in branch. Achieving this goal should be the cornerstone. This would entail incorporating key digital features, such as:

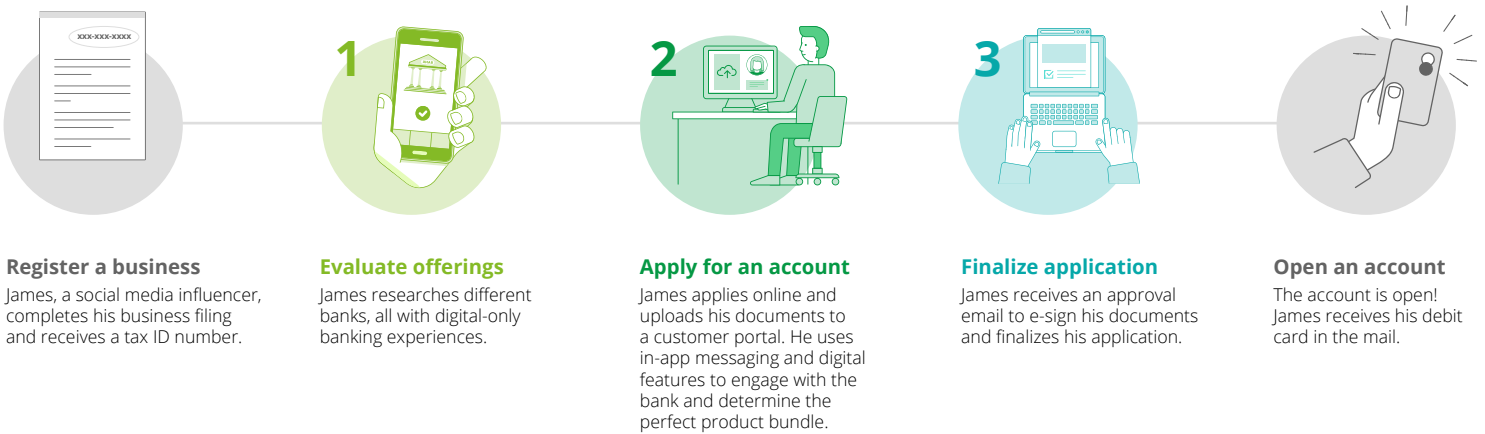
- Complete digital applications requiring no banker intervention
- Customer portals for document upload
- Concurrent user-capable applications
- E-signature to support initial application and final loan closing

Delightful experiences that can excite customers could entail features, such as:

- In-app customer-to-banker messaging capabilities
- Incorporating QuickBooks™ integration for financial statement pulls
- Data aggregation services such as PLAID™ to easily gather deposit and investment data for underwriting

Though delivering on a seamless digital experience will remove most of the friction from the origination process, the small business profile does have many nuanced exceptions that require personalized support guiding the customer through the origination life cycle. Thus, Deloitte believes any digital experience must be complemented with an operating model designed to support engaging with the customer and addressing customer exceptions. As small business lending becomes more digital, providing a holistic experience can set one bank apart from another. As such, it's essential to have a focused call center model and loan processing center dedicated to your digital presence. Below, Deloitte demonstrates an example focused on customer touchpoints and activities. Each customer touchpoint should have a focused strategy to achieve market-desirable customer service level agreements (SLAs) of hours versus days in this arena.

Scenario 2: The digital scenario only takes 1 to 2 days and can be done entirely from home



Conclusion

As the number of small businesses continues to grow post-pandemic, it's important that banks transform their digital banking experiences to meet rising customer expectations.

Today's small business banking experience is fragmented and outdated, often requiring in-person interactions that could easily be solved digitally. As new small business opportunities and trends continue to emerge post-pandemic, banks will need to take a fresh look at delivering new products to meet changing expectations. The banks that understand emerging trends and deliver customized products to support their customers' needs are well positioned to have a competitive advantage over their peers.

Deloitte is actively assisting clients across the small business lending transformation journey. While there is no one-size-fits-all approach, there are consistent approaches and lessons learned to successfully implement a viable solution to bring to market that creates differentiation. Further, industry-leading technology solutions provide compelling first-mover advantages to acquire out-of-the-box capabilities coupled with Deloitte's small business technology accelerators. Please reach out to Deloitte to find out more about how we are transforming the way financial institutions operate across banking and capital markets.

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Meet the team



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Joseph Cody is a passionate technologist and client service principal at Deloitte Consulting. His consulting career spans 18 years with a focus on the banking sector and technology transformation. Joseph serves as a trusted adviser to the banking industry on the topic of digital banking, with a focus on digital onboarding and core renewal, specifically nCino. Joseph is also responsible for Deloitte's Digital Banking Solutions market offering, which specifically solves for the challenges banks face in modernizing and digitizing their banking platforms.



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