

SME Banking 2020

Changing the conversation
(and capturing the rewards)



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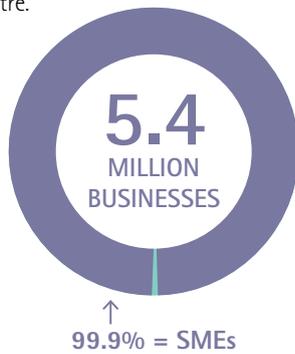
Banks could open up £8.5 billion in new revenue streams by 2020. Welcome enough anytime, in a tough market for growth it's an extremely attractive proposition.

So what's the source of this opportunity? Delivering value-add products and services to small and medium-sized enterprises (SMEs).



Banks are ideally positioned to start providing their SME customers with the higher value services they need (and are willing to pay for), provided they can understand these needs better and deliver solutions to meet them. The alternative? Ceding relevance and revenues to other more digitally savvy providers – within the financial services industry and outside it.

This Point of View showcases recent Accenture research that highlights the scale of the SME opportunity. We'll be following up throughout the year with further insights into the capabilities that banks need to recalibrate their relationships with SMEs and capture these new revenues, including our perspective on the changing role of the Relationship Manager (RM), and how digital has the power to create an entirely new way of serving customers...with the RM still at the centre.



SMEs are the backbone of the UK economy. According to the Federation of Small Businesses, of the 5.4 million businesses nationwide, 99.9 percent are SMEs. They generate roughly half of all private sector turnover and employ around 60 percent of the UK workforce¹.

It's a core segment for banks. 80% of Banks across Europe see the SME Market as a priority growth area², and outstanding SME loan balances currently top £120 billion³. But it could be an even more valuable opportunity.

To help understand exactly how much more, in January 2016 Accenture commissioned a survey⁴ of 1,000 SMEs⁵ across a number of sectors within Britain. We asked them for their views on their current bank, their opinion on what services they need to be successful businesses and, crucially, the role they see their bank playing in providing (or not) these products and services.

Is 'OK' really good enough?

The good news? The majority (63 percent) of SME customers are satisfied or relatively satisfied with their banks. They're looking for high service quality at low cost. And, broadly speaking, they believe that's what they're getting. If there's any room for improvement, it would be to keep on receiving the same banking services, but with lower fees and charges attached (45 percent of SMEs say lower fees would increase their satisfaction the most). A full 20 percent of SMEs claim there's nothing their bank could do to make them happier. In other words, even though banks certainly do need to do something about the one-third of customers who are dissatisfied (or at best neutral) where their banks are concerned, the relationship with SMEs is far from broken.

Any push to secure these relationships and build market share by reducing fees and charges will, however, be a race to the bottom. It's a route that would consign banks to utility status at precisely the time they need to differentiate themselves in an increasingly commoditised market.

To drive the growth they need, banks could be generating new revenues by providing

SMEs with relevant, value-added services. The challenge, however, is that SME customers don't currently look to their banks as the obvious source of innovative services. Only a very small proportion of them (4 percent) look for availability of services addressing their broader business needs when selecting a business-banking provider (see Figure 1):

SMEs certainly do need these value add products and services. At least one in three are already using, or have expressed an interest in a whole range of services that will help them to run their business better, improve customer service and/or increase sales. And we know they're prepared to pay for them. Our research shows that over 20 percent of SMEs would be happy to pay an additional monthly fee for value-added services.

In many ways, it's clear that SMEs have few strong feelings about their banking services today. And before banks can do more in this crucial sector of the economy, they will have to address these low expectations. After all, in such a competitive market, being 'OK' is a dangerous place to be.

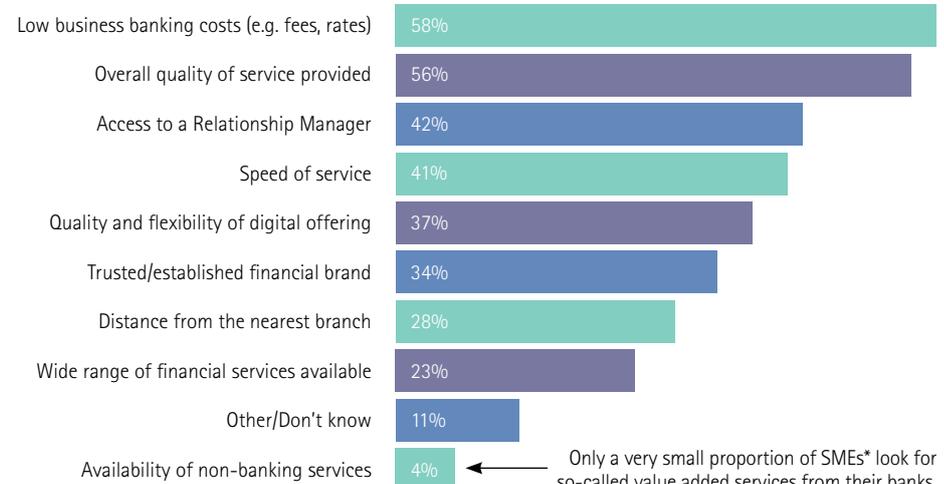


Figure 1

SMEs don't look to banks for non-financial services

The majority of SMEs* surveyed want high quality service at low cost...

What do I look for when I select a business banking provider?



1 <http://www.fsb.org.uk/media-centre/small-business-statistics> || 2 https://www.efma.com/ressources/studies/2015/1-1BFA1D_E_summary.pdf || 3 <https://www.bba.org.uk/news/statistics/sme-statistics/bank-support-for-smes-4th-quarter-2015/#VV09BcvruM8> || 4 Survey performed on behalf of Accenture by YouGov plc [2016] © All rights reserved || 5 SMEs defined as businesses with between one and 250 employees (excluding sole-traders); no revenue limit was specified for the purposes of our research || * Excluding Sole Traders

On the basis that there are 1.3 million small businesses in the UK, our research shows that there's an additional £1.6 billion in annual fees that banks could and should be capturing

Changing the conversation...

To increase their relevance in this market, banks need to change the conversations they're having with their SME customers. Instead of focusing on 'cost', these conversations need to be about 'value' from now on. Unless banks do this, they risk forfeiting billions in revenues to other organisations.

On the basis that there are 1.3 million UK small businesses with at least one employee, our research finds up to £828 million in annual fees that banks could and should be capturing (see Figure 2) from customers who declared the value they would be willing to spend. That doesn't include the sums that could be secured from the 24 percent of respondents who said they'd be willing to pay something for value-added services, but chose not to disclose how much.

If we assume a similar distribution of willingness to pay fees amongst this undisclosed group, the potential annual revenue opportunity for banks from value-add services swells to £1.6 billion. Rolling that through the next few years, and it's clear that there's a total revenue opportunity for UK banks of £8.5 billion by 2020.

This has to be worth playing for. And banks have a head start. SMEs already trust them to deliver a range of financial services. They could leverage that brand equity to start providing value-added services in a number of areas. The priority must

be to move from 'financial services provider' to 'SME business partner'.

The door's already ajar. We know SMEs are open to having closer relationships with their banks. Our research shows that 31 percent of SMEs are looking for closer engagement with their bank as a source of proactive ideas, including the financial and non-financial assistance that will help them to optimise their businesses. A further 26 percent want their banks to offer more complex services on demand (see Figure 3).

Of course, banks cannot ignore the 37 percent of SMEs that want to be left alone. They remain consistent customers for simple, low-cost banking products and services and, as such, relationships with them must be protected. But at the same time, the majority 63 percent of SMEs that are open to deeper engagement with their banks must be targeted from now on.

There's stiff competition. Our research shows that other providers are identified as the obvious choice for advice and support. That may include professional advisors such as accountants, lawyers or investors, as well as the many new players, including FinTechs, that are entering the SME space with digital offerings.

Figure 4 highlights the extent of revenues that banks are currently sacrificing to other providers. Only 30 percent of SMEs currently

turn to their banks for services to help them run their businesses better, with 70 percent looking elsewhere. And just 35 percent would rely on their bank for services to help them increase sales (65 percent lost revenues).

Numbers at a glance





Figure 2
Willingness to pay a monthly fee for value-added services

Potential monthly fee (£)	Up to £10	Up to £20	Up to £50	Up to £75	Up to £100	> £100**	Annual Total
Run business better	5%	4%	6%	3%	2%	5%	£324m
Serve customers better	6%	5%	4%	2%	2%	3%	£228m
Increase sales	4%	5%	4%	2%	3%	2%	£276m



Figure 4
Facing stiff competition from other providers



From where would we prefer to access the following types of non-financial products and services?

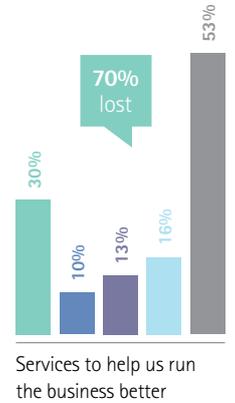


Figure 3
An appetite for closer engagement

Which of the following statements best describes the relationship I want with my business bank?

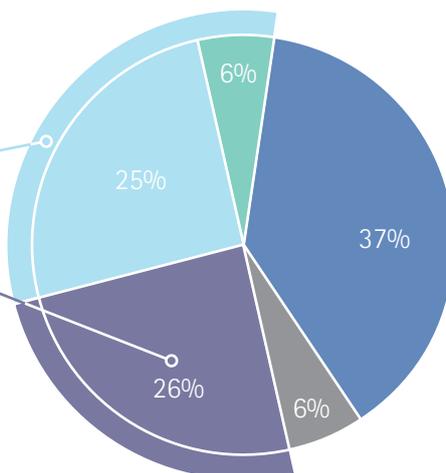


Despite not selecting a bank on the basis of access to complex financial services, SMEs* have an appetite that banks could seek to fulfil...

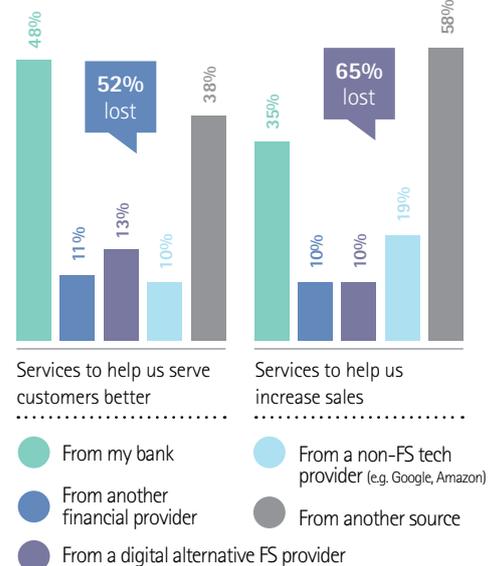
31% of SMEs* are looking for close engagement with their bank, seeking proactive ideas AND non-financial assistance (e.g. value-add services) to help optimise their businesses.

26% of SMEs* want their banks to offer more complex services on-demand, recognising their needs may not be simple. These customers could be migrated into the "help us" category.

- Help us succeed
- Help us excel
- Leave us be
- Recognise we're different
- None of these



Due to rounding figures may not total 100%



* Excluding Sole Traders





Selecting the right targets

For banks seeking to target this outstanding opportunity, it's important to remember that, far from being a homogeneous bloc, SMEs are a very diverse demographic. They range enormously in scale and ambition, from fast-growth tech start-ups to stable, medium-sized manufacturing businesses. Banks seeking to do more in this sector need to create a much more detailed picture of the market and its participants.

One way of approaching this is to look at the SME sector from a perspective of need. Who are the customers with the more complex needs? And which ones want to work closely with a banking partner, work tactically with a banking provider, or keep their bank at arm's length? To help map out this picture, and provide meaningful insights into the size of the prize, we've used the findings from our research to plot need against preferred relationship (see Figure 5).

Looking at the graphic, it's clear that almost half of SMEs have simple financial needs. Over one-third prefer to keep the bank at arm's length. It's the segment in the top right (totalling 46 percent of the market) that presents the huge opportunity for banks. These customers are open to closer engagement with their banks. And they have complex financial needs that must be met. If banks don't service them, they'll continue to be side-lined from the lucrative business opportunities they represent.

The time for banks to move on this is now. If they don't, others will step forward to form these value-add relationships. These competitors, many from outside the financial services industry, are already tapping into banks, authorised by SME customers to access their data and provide them with a range of services. Digital makes this very easy to do.



Figure 5

Plotting need against preferred relationship

 Work closely with my banking partner	2%	3%	1%
 Work tactically with my banking provider	12%	37%	5%
 Keep the bank at arm's length	30%	9%	1%
	 Simple financial needs	 More complex financial needs	 Highly complex financial needs


Close to half of SMEs (44%) have **simple financial needs**.


Over one-third (40%) prefer to **keep the bank at arm's length**.


But, 46% of SMEs have **moderately or highly complex financial needs** AND will tactically or often seek a closer relationship with their bank.
This group offers banks the greatest opportunity.

From financial services provider... to business partner

So how can banks achieve greater relevance in the SME marketplace and deliver to its requirements? Doing this will require a more agile and nimble approach. They need to invest in technology platforms to provide services that will help SMEs to manage their operations more effectively (as well as having the flexibility and agility they need to continuously fine-tune and reinvent services to meet fast-changing demands). Having done so, they'll need to seamlessly migrate their existing SME banking customers to these new digital channels (while maintaining the legacy channels that will continue to supply basic banking services).

Of course, none of this is going to fundamentally change the nature of the bank's relationship with SMEs. But in and of itself, just focusing on the core-banking proposition is certainly no longer enough.

Migrating SME customers to new digital channels

With so many competitors already targeting SMEs with sophisticated digital offerings, banks urgently need to gear up their capabilities to provide the same service. That's a challenge. We know that SMEs favour assisted human interactions over self-service in their dealings with banks. For this reason, the relationship manager continues to be a vitally important point of contact (see Figure 6). This is where digital innovation can be a real game changer. By using artificial intelligence, machine-learning and video technologies, banks can reimagine the relationship manager role for a digital marketplace, and start to deliver the services SMEs require through new digital channels.

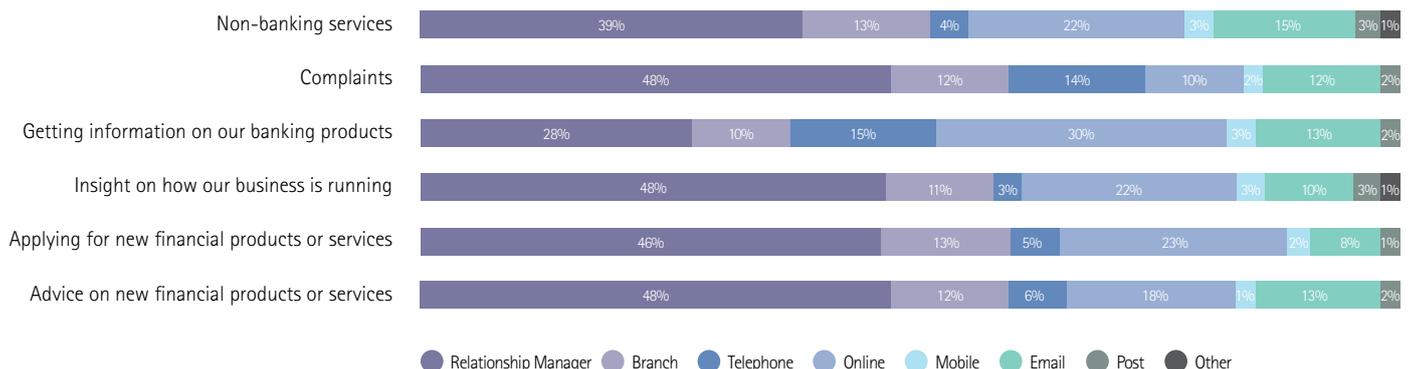
Investing in analytics

To get into this market and exploit the opportunities it holds, banks must invest in the analytical capabilities that will enable them to segment their SME customer base, understand its multiple needs, and target key segments with relevant products and services.

Our research shows the range of services that are in demand. Some of them, like P2P lending are perhaps less surprising. What's more interesting is the level of demand for cloud, big data, blockchain and business advisory services (see Figure 6). Each of these could represent a significant new revenue stream for banks, provided they develop the digital channels and/or partnerships needed to deliver them.

 **Figure 6**
SME preferences for interactions with their banks

SMEs* favour assisted human interactions over self-service. Yet, with online well established, and video calling now stable and reliable, opportunities exist to move this trend...

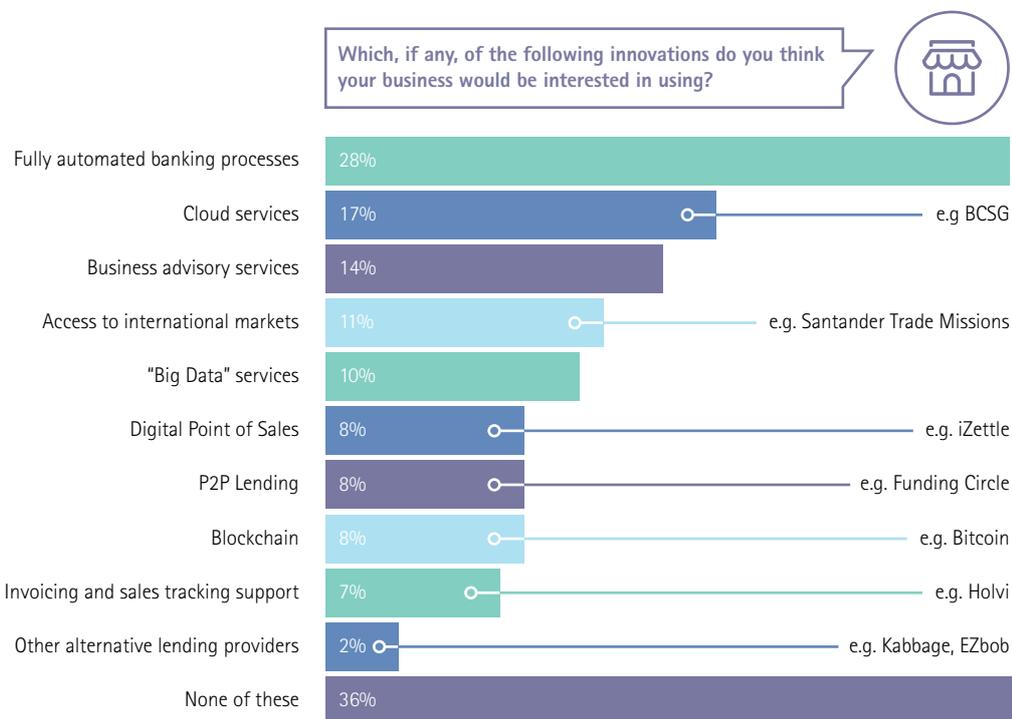


Due to rounding figures may not total 100%

* Excluding Sole Traders



Figure 7
Innovative services that SMEs would find interesting



Orchestrating service providers

Banks are currently leaving the door open to third-party organisations, when they could be partnering with them instead. The rapid route to relevance lies in orchestrating multiple service providers – through a multi-brand strategy – to deliver the wide range of non-financial services demanded by SMEs. Today's question is not one of "build vs buy", but rather choosing the right blend of in-house development as well as third party alliances to meet the wider business (not just financial) needs of SME customers.

We've already referenced the diverse demographic in this market, and the wide range of demand for innovative services. Instead of seeking to develop these new

services themselves (resource-intensive and time-consuming), banks can rapidly acquire the capabilities they need through a targeted partnership and/or acquisition strategy.

Santander UK provides a persuasive example of what can be achieved. SME customers of the bank can access funds through the bank's partnership with Funding Circle, a peer-to-peer website that specialises in corporate loans⁷. They can also get access to other value-add services (like cloud-based services) through the range of partnerships the bank has put in place.

Other banks are starting to position around this opportunity. BBVA has acquired Finnish

FinTech Holvi⁸, an online-only bank for entrepreneurs and SMEs. Holvi offers a range of services for small businesses and their banking online. Its products include an online sales platform, an invoicing platform and a cashflow tracker. Their offering is geared to help entrepreneurs start their own businesses and get established.

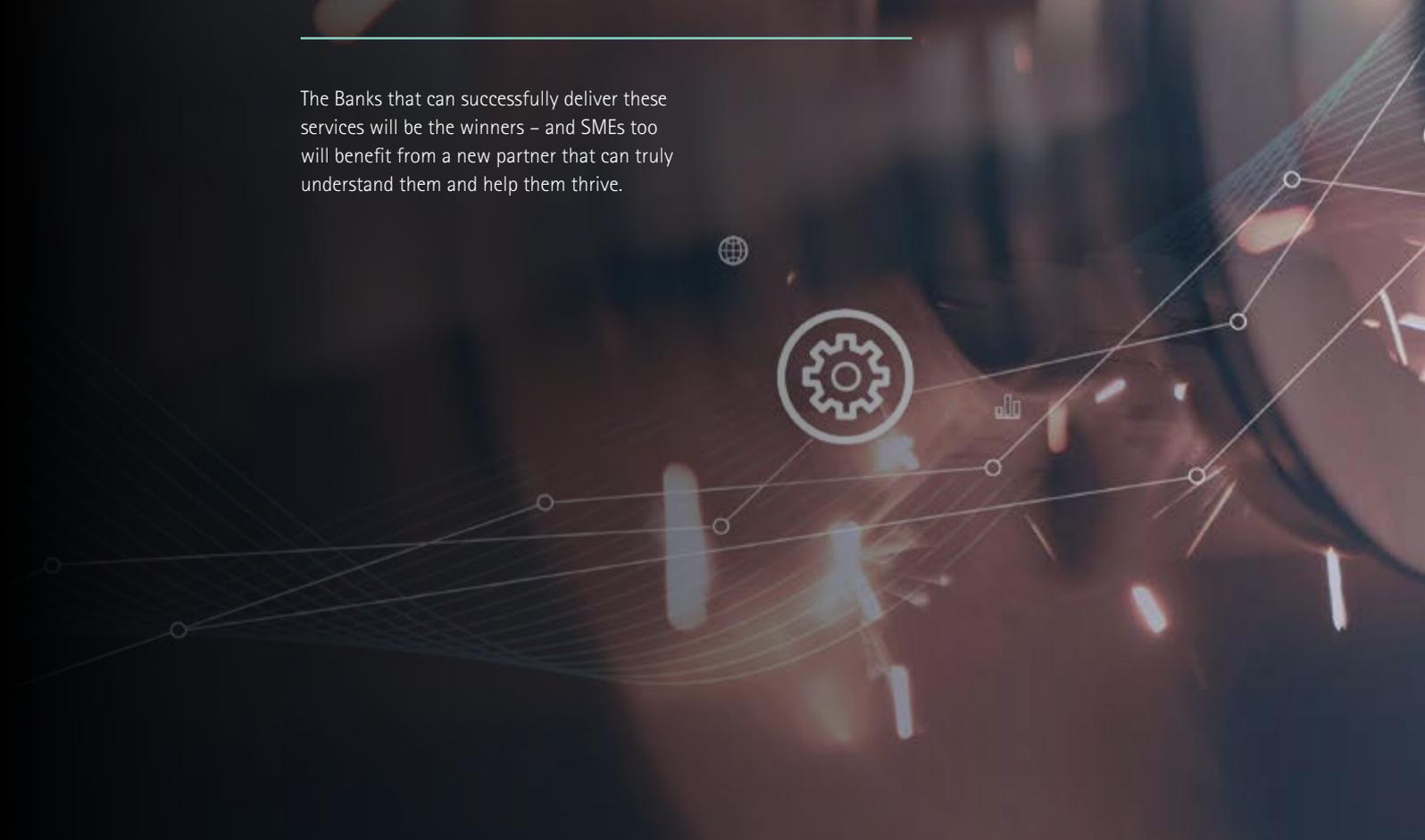
The relevance imperative

With such outstanding revenue opportunities within their grasp, banks urgently need to optimise their positioning to win the consideration and value-based business of their SME customers.

The imperative is to understand the scope of SME business (not just financial) needs and focus on how to meet them. As part of this process, we believe banks should do the following...

- 1.** Banks need to change the nature of the conversation they have with their SME customers – it's not just about being a financial provider any more
 - 2.** To meet the hugely varied needs of SMEs across the country, Banks should consider an ecosystem approach, partnering with FinTechs where possible, as well as other established technology providers of services and products that can help change today's Banks into SME partners of the future
 - 3.** New approaches often demand new structures. Banks should consider the opportunities offered by a multi-brand strategy as they seek to position themselves as relevant providers of services to SMEs across the spectrum
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The Banks that can successfully deliver these services will be the winners – and SMEs too will benefit from a new partner that can truly understand them and help them thrive.





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