

.....

From headaches to opportunities:

How cloud-based services
for SMBs can help banks
transform their business

.....

Both data and informal reports suggest that banks have weathered the storm of the financial crisis. All five of the UK's biggest institutions returned to the black in 2013, for example. But while all might appear calm on the surface, changes in customer behaviour and the emergence of new technologies are starting to make waves. This has led one advisory firm, Accenture, to predict that the world's financial institutions will have lost up to 35% of their market share by 2020.

So how can banks stand up to the challenges they face, and turn them into opportunities? We look at a section of their customer base that's thriving – small businesses – and suggest an approach that would put innovation at the heart of their offering.

banking at the **crossroads**

Pre-crisis, banks would regularly see a Return on Equity (RoE) of around 20%. In 2013 many achieved just 6.6%, according to Reuters¹. And with regulators requiring far higher permanent levels of capital, such giddy heights are unlikely to be scaled again unless banks find different ways of working.

This is not news to the banks themselves; many are busy divesting themselves of services, assets and resources. Figures from KPMG, for example, reveal a 15% drop in employees at the UK's big five banks since 2008.

The story's the same for institutions in Europe and beyond. In a discussion group at the Efma SME Banking conference 2014, some

attendees were taking drastic action, closing the bulk of their branches and automating services to cope with the impact of their countries' depressed economies.

Others are looking to find new ways of delivering long-established services. SunTrust in the US is trialing video tellers in a few carefully chosen branches, while also setting up computer stations to get customers used to online services and installing robots to handle safety deposit boxes².

No matter what the approach, there's a clear realization that it's no longer sustainable to principally service customers either face-to-face or on the phone.

1. Laura Noonan, 'Painful 2013 leaves European banks' returns well below target', Reuters, 17 April 2014, <http://uk.reuters.com/article/2014/04/17/uk-europe-banks-returns-idUKBRE3G0LE20140417> (accessed 5 August 2014)

2. Mary Wisniewski, 'First Look: SunTrust to Test Video Tellers in Select Locations', American Banker, 18 June 2014, http://www.americanbanker.com/issues/179_117/first-look-suntrust-to-test-video-tellers-in-select-locations-1068170-1.html (accessed 5 August 2014)

making the move to digital

In these circumstances, digital is looking very attractive. Leaders in the financial services industry are recognising the opportunities – and the challenges – that such a move brings.

“ We are on the leading edge of a technological revolution in financial services. Like all leading edges it is not immediately apparent but it is coming, it is coming fast and it is coming hard. Banks have to evolve and adapt. Find the best, most efficient, innovative ways of serving their customers and clients and instil a culture that ensures we do business in the right way.

Antony Jenkins, Group CEO, Barclays, speaking at Lansons Future of Financial Services Conference, 10 June 2014

“ Banks are losing their monopoly on banking. It is up to each one to rise to the challenge of offering the information services (banking or otherwise) that people need³.

Francisco Gonzalez, CEO, BBVA, Financial Times, 2 December 2013

3. Francisco Gonzalez, 'Banks need to take on Amazon and Google or die', Financial Times, 2 December 2013, <http://www.ft.com/cms/s/0/bc70c9fe-4e1d-11e3-8fa5-00144feabdc0.html#ixzz3CF0U1x9I> (accessed 3 September 2014)

...

The all-important point about moving into the digital space is whether the bank does it simply to solve its own problems, or also to better answer consumer needs.

...

perceptions of value are changing

Matters are made more complicated by the continued fallout from the financial crisis. While banks are still trusted to take care of our money, the value of that service is less clear to consumers. When 1,000 US customers were polled in 2013, 58% said they didn't believe their bank had their best interests at heart, and 42% felt taken advantage of in the fees they paid. Nearly half (46%) said they didn't feel especially loyal to their bank⁴.

That mix of declining loyalty and a widening gap between

expectation and reality is one of opportunity for banks, as we'll discuss shortly, but also risk. Disappoint, and your customers are increasingly likely to move their account – a US study in 2012 showed that 9.6% of customers had done just that, up by 2% on 2010⁵.

And with more and more businesses stepping into the day-to-day banking space, and more and more start-ups offering clever ways to exchange and manage money, that switch could well be away from traditional banks in favour of new challengers.

Then what?

Technology journalist Jennifer L. Shenker has posited a stark outcome. “Just as telecoms companies risk becoming dumb pipes, banks could be relegated to a role as clearing houses.”⁶

...

4. 'With more marketing, community institutions could steal megabank market share', The Financial Brand, 6 March 2014, <http://thefinancialbrand.com/37447/community-institutions-poised-capture-megabank-market-share/> (accessed 5 August 2014)

5. 'Bank customer switching rates rise again, fuelled by issues with fees and poor service', J. D. Power, 27 February 2012, <http://businesscenter.jdpower.com/news/pressrelease.aspx?ID=2012017> (accessed 5 August 2014)

6. Jennifer L. Shenker, 'Banks figure new ways to work with start-ups', Informilo, 18 June 2014, <http://www.informilo.com/2014/06/banks-figure-new-ways-work-start-ups/> (accessed 5 August 2014)

innovators are answering **customer needs**



The world isn't short on young, innovative businesses that are transforming services once thought to be solely the remit of banks. Peer-to-peer lending, digital wallets, crowd-funding: 25% of CNBC's Disruptor 50 list for 2014 are companies snapping at the heels of big banks.

In turn, those banks are starting to partner with the disruptors. Santander, for example, will now refer small business customers looking for loans to the peer-to-peer lender Funding Circle. They'll then recommend Santander to customers looking for day-to-day banking. Others like Barclays have made the move into the world of apps themselves with products like Pingit for Business, which lets people send money to a recipient via their phone number.

The focus remains firmly on financial products. But what else might customers actually need?

...

25% of CNBC's Disruptor 50 list for 2014 are companies snapping at the heels of big banks.

...

small business: **evolving and embracing technology**

Small businesses are on the rise.

In the UK for example, government statistics show that an increase in the number of businesses is in fact purely due to the growth in smaller, non-employing businesses (in 2013 there were 127,000 more than at the start of the previous year).

SMBs not only account for 47% of private sector employment, they also have a combined turnover of £1,600 billion . If you're looking for new revenue opportunities, this is no bad place to start.



a skills gap

What many of these businesses don't have is access to the advice and tools they need to survive and thrive. In research we carried out in 2012, 70% said they considered themselves to have been at the beginners' end of the scale across finance, marketing, legal, HR and IT when they started their business.

and an influencer gap too

Where can they go for this kind of advice? In years gone by they might have paid a visit to government-funded Business Link in the UK or SBA in the US, for example. Or they might have called on their business banking relationship manager. Now, while there's a mass of content online, they're without the guide who'll sort the wheat from the chaff.



the cloud brings **solutions**

.....

Increasingly small businesses are looking to the cloud to help address these needs. In the UK 61% are using at least one online application and that figure is even higher in the US (78%) . What areas do they want help with? Marketing (77%), cash flow (75%), managing their finances (75%), company legislation (74%) and CRM (68%) are top of their list at the moment, closely followed by functions like IT and HR.

And the impetus is there to make the move: nearly half (48%) of small business owners have said they intend to adopt cloud services within the next two or three years. By then analysts have estimated the market will be worth upwards of £670 million.

As long as the choice of software solutions continues to increase and benefits continue to be felt, the breadth of functions that they cover is likely to expand too.

SMB's taking advantage of the cloud's benefits

- No need for capex, technology is updated regularly
- More predictable cash flow, with monthly annual payments
- Freedom to work wherever and whenever
- Collaborative ways of working
- Ease of set-up, round-the-clock support
- Scalability

The net result is that the cloud is making SMBs nimble, focused and competitive, so much so it can be hard to tell a small company from a big one...

from returns to relationships

So how do banks create new services, build broader relationships with their SMB customers, improve satisfaction and ratchet up their relevance in today's world? One very compelling route is through value-added services. This can mean different things to different people, from business education programmes to rich non-banking content online. But these types of extras will only take you so far.

The challenge is to go beyond six-monthly events, for example, and help small businesses with the challenges they face every day. That's where cloud-based services come in. They offer a powerful way of helping people find tools to genuinely help them manage their business. And allow these customers to regularly engage with a brand, without relying on branches and call centres.



becoming a partner to **small business**

The key to getting any kind of value-added service right is understanding the need that it's answering. In the case of cloud-based services, there are a huge number of cloud-based solutions that could form part of your offering – over 5,800 on GetApp, the largest directory of online services.

Customer needs must drive your choice, as well as the opportunity to integrate these tools with your core products. The added benefit of having so many to choose from is that you'll also be able to clearly differentiate your offering from others.

- ✓ Careful curation shows that you understand what your customers are going through.
- ✓ Taking them on a journey from 'just looking' to logging in everyday shows you're committed to providing genuinely useful solutions.
- ✓ Adding new services shows you're constantly alive to the opportunities that technology is revealing.

By starting out as a facilitator, you can gradually move towards being a guide, and eventually a valued partner.

how cloud services can **evolve your brand**

A diversified product base.

Build on your core products and these new services become a natural extension of your expertise. As you broaden your proposition, you then create opportunities for further expansion.

A reason to communicate with customers.

Provide a range of services that help customers with everyday tasks and your conversations can become more regular and relevant across more touch points.

A better understanding of consumer behaviour.

Through data analysis and through the options that are built into most cloud services, you'll have a better insight into how individuals interact with your brand, which can then inform future decisions.

From selling to support.

Because you're providing practical tools you can legitimately advise, support and inspire. This conversation can then loop back to include your core products.

Increased customer lifetime value.

By competing more on value and less on price, you're likely to hold on to customers for longer. And by offering a group of related services, you're likely to get a greater share of their wallet too.

A shift in your brand's positioning.

As a result of these changes your brand will begin to be associated with new things too, like innovation, support, agility, and so on. This kind of evolution is harder to measure, but it will influence brand loyalty and drive differentiation in a competitive market.

what a future with cloud-based value **added services could look like**



New entrant disruption

Commoditisation of core lines

Legacy cost base issues

Cumbersome, unwieldy processes

Regulator pushing for competition

Products increasingly viewed as simple

Functional customer relationships

A sophisticated use of digital

Brand extended into a new, innovative space

Delivering great customer experiences

Diversified revenue

Part of your customers' success stories

Increased engagement and touch points

A reason to talk about your core products



planning for **success**

Cloud-based solutions aren't products you can just bolt-on to your existing offering. And they're not things that businesses will buy on a whim. They require a change in the way you do business – and that's probably even more relevant for banks than it is for their SMB customers, many of whom are already considering making the move.

taking a **strategic approach**

As with any decision to diversify, offering cloud services must be done strategically. And that starts by saying not 'We'll do it' but 'Who'll do it with us'. It helps to have those people working not for you but with you because they already:

- have existing relationships with software providers and can negotiate better deals
- are at the forefront of development and know what's best in class
- know how to aggregate cloud-based solutions for different users across different categories
- are experienced in integrating new offerings with existing services
- are skilled in converting interest to purchase and usage
- know how to deliver solutions to match specific security requirements.

every step matters

.....

That said, your cloud service offering needs to be fully integrated into your organisation too if it's going to succeed.



Be clear about your objectives.

What do you actually want to achieve by getting into cloud-based value-added services? Force rank your objectives. The most important should shape the proposition design.

Have a long-term plan.

Beyond launch you'll need a road map of activity for the next 12 months, three years, and so on.

And a budget to match.

Your business case needs to look beyond build, launch and campaigns to the ongoing life of the project.

Put analytics in place.

Have a structured plan for monitoring performance and customer needs so that the service continues to evolve and stay relevant.

Educate your internal audience.

Get your people to the point where they really believe in the service so that each time they have the chance to talk it, they'll know which feature to focus on, and how it will address a business's needs.

Manage expectations.

The success of a small business cloud service depends on people using the software within it. It'll take time to convert interest to usage. That means taking a realistic, long-term view of costs, and managing expectations about rapidity of payback.

Done properly, cloud-based value-added services have the potential to powerfully affect the success of your small business customers. It can bring similarly transformative results for your organisation too. Most significantly it presents an opportunity to harness innovation and build deeper, more rewarding relationships with customers. And that creates an entirely new role for your bank, away from transactions and into offering valued guidance and support.

-  facebook.com/BusinessCentricServicesGroup
-  twitter.com/BCSGcloud
-  linkedin.com/company/bcsg

www.bcsfg.com
 enquiries@bcsg.com
 0845 880 8820