SunTec

Why Banks Must Re-Evaluate and Revamp Strategies for the Small and Medium Business Segment

Small and medium businesses (SMB) play a vital role in driving regional and global economy as well as employment. In the APAC region 98 percent of all enterprises fall into the SMB category and they employ almost 50 percent of the workforce while in the US almost 47 percent of the workforce is employed by the SMB sector that contributes 44 percent to the country's GDP. Yet this segment remains chronically underserved by the banking industry due to some intrinsic risks they present. But can banks continue to ignore the SMB segment as competition increases and pressure on revenues continues to grow? And can age old approaches still help banks to leverage the opportunities presented by the SMB segment?

The SMB Challenge for Banks

The answer to both questions is a negative – banks must reconsider their SMB strategies to tap into the significant potential of this segment. According to the World Bank, the global SMB sector's financial needs amount to about USD 5.2 trillion a year, which is 1.5 times the loans that are currently available to them. Traditionally, banks have focussed their energies on large enterprises, leaving the financial needs of SMBs unmet. There are a couple of different reasons for this. First, SMBs working with limited resources, budgets, and liquidity challenges often present a higher credit risk for banks. There is also higher cost of service delivery associated with SMBs when compared with large enterprise customers. Second, traditional banks have lengthy and detailed criteria to be met before issuing loans such as credit history and FICO score. And most SMBs are unable to meet these requirements.

But over the last few years, non-traditional lenders such as fintechs and neo banks have emerged to fill in this lacuna. Unencumbered by the established loan criteria of traditional banks, these cloud-native players are considering non-traditional data such as rent, utility payments, and even social media reviews to gauge volume trends and sales and approve loans. The post pandemic global economy is still trying to make up for 2 years of disruption and is impacted by war and geopolitical tensions leading to high interest rates and evolving risk and regulatory landscapes. Amidst this disruption, banks are facing increased pressures on revenues and profitability and cannot afford to lose out on the SMB opportunity.

5 Key Areas of Focus for a New SMB Strategy

Banks must now re-evaluate and rework their SMB strategies to really capitalize on the segment's potential. There are 5 key approaches that banks must consider when it comes to SMBs:

Personalised Pricing:
So far, banks thought of SMBs as smaller corporates and worked with them the same way they did with large enterprises. But evidently, this approach does not work because it does not consider the unique requirements and constraints of small businesses. Banks must begin by treating small and medium businesses as sophisticated retail customers and offer them differentiated, pricing strategies that are created keeping their specific requirements and constraints in mind. Banks are already moving to customer-centric models with dynamic relationship-based pricing solutions. Now is the time to extend the same to SMBs as well with hyper-personalized and flexible product and pricing solutions as well as personalized deal management.

Product Bundling:
SMBs lack the resources of large enterprises and want solutions that can meet myriad needs. Banks must take this opportunity to offer personalised bundles with value added services and products that will benefit the SMB. Product bundling advantages also extend to the bank as they can use this to get SMBs to try new services and product lines, opening new revenue streams, reducing credit risk, and helping maintain margins.

SMB Banking Ecosystem:
Constraints around financial and human resources are significant challenges that most SMBs face. They are often not able to hire the manpower or invest in the technology required to manage processes like payroll, accounting, insurance, legal consulting and more. And yet they need all these services and more. This is an opportunity for banks to orchestrate a comprehensive SMB ecosystem that is designed to meet the unique requirements of these businesses. Banking ecosystems, API banking, and Banking-as-a-Service models are on the rise, and banks now have the means and the technology to create and manage an ecosystem specifically for SMBs. They can even partner with fintechs or neo banks to offer loans to those SMBs they deem too risky. This can help them extend some services to every SMB while allowing others to offer complementary or supplementary services. Effective ecosystem management and monetization can help drive revenues for the bank and ensure customer loyalty.

Automation:
Modern banking is complex and calls for the ability to assess real-time data for actionable insights, and quick roll out of personalized pricing and offers, and deal management. And if banks move towards the ecosystem model of banking, then there will be even larger volumes of data to be managed. Automated billing systems enterprise application software and cloud-native digital banking solutions are critical for banks to fully capitalize on the SMB opportunity. They must be able to automate pricing implementation with automated implementation of quote, and customer hierarchy pricing variation configuration. And they must be able to automate approvals as well billing operations to ensure seamless and accurate invoicing and revenue management.

Transparency:
Banks need to build and maintain customer trust to ensure loyalty and long-term stickiness. Transparent pricing, deal management, and dispute resolution is an excellent way to achieve this. As banks invest digital banking solutions and automated billing systems enterprise application software, they can ensure a completely transparent banking process with customer view of billing and seamless dispute management.

Banks must now focus on customizing and personalizing their strategies to meet the specific and unique needs of SMBs. They need to be able to analyze large volumes of data for insights that can help shape personalized pricing and bundling offers. And they need to be able to automate key processes to ensure transparency. None of this is possible with legacy banking cores that lack the agility and compute power required to handle large volumes of data for personalized services and pricing in real time, or for seamless deal management and billing.

More importantly, these legacy systems cannot support an ecosystem model with multiple partners and complex transaction management. The good news is that banks don't have to engage in risky and expensive core modernization efforts. They can just work with a third-party vendor to deploy a robust cloud-native middle layer software that can sit over their legacy system. Such a middleware solution can help the bank devise relationship-based pricing solutions for SMBs, manage a customized ecosystem, automate processes, and ensure transparency.

Banking revenues are under significant pressure as the world continues to be in a state of disruption and competition intensifies. As a result, they must look at effectively engaging the SMB sector that offers a sizeable business opportunity. An overhaul of existing SMB strategies with a focus on technology powered personalization, ecosystem orchestration, automation, and transparency can help banks leverage the SMB opportunity effectively.