



Increasing Profitability and Retention of Small to Mid-sized Business Customers with Accounting-Integrated Services

Executive Summary

Financial Institutions (FIs) can increase profitability and retention of small to mid-sized business (SMB) customers by integrating the delivery of services with SMBs' accounting and financial systems. Applicable services range from basic cash management & payment to higher value merchant service, e-commerce and receivables management offerings. The lack of easy integration of these services with SMB applications such as QuickBooks is a burden on users that inhibits adoption, increases churn and limits cross-selling. "Last mile" integration software can address these business needs, filling the gap by connecting existing FI service platforms with popular SMB applications. By making "integration" a benefit of SMB service offerings, FIs can deliver a better customer experience for both basic and value-added services, increasing service adoption, cross-selling, and customer retention.

The Financial Institution's Problem

Financial institutions (FIs) today face a tension in offering services over the Internet. On the one hand, fees for basic Internet banking services are reduced or eliminated in the drive to increase adoption, retain customers and reduce cost of service. On the other hand, FIs want to cross-sell value-added services, to differentiate themselves, and increase fee income and customer retention.

Small and mid-sized businesses (SMBs) are a key area of opportunity as FIs seek to reconcile these goals. Typically the most profitable customer segment, they remain underserved. While they may not individually spend as much on a service compared to larger business customers, their price sensitivity on a per-transaction basis is much lower. Like retail customers, they seek ease-of-use and value. However, they also have distinct business needs – along with much higher transaction volumes than consumers, and a willingness to pay for service.

Yet, while most FIs have separately marketed SMB offerings, these are typically little more than the consumer-banking offering, with inaccessible corporate treasury solutions the next step up. Often, a retail service platform drives the SMB services, limiting the FIs' ability to deliver value-added SMB services. In addition, services for corporate and mid-market customers, while they include some functionality of potential value to SMBs, are over-complex and too expensive for those smaller businesses. This limited SMB appeal, combined with sales & support costs for such solutions, effectively rules out any possibility of marketing these services more broadly.

The Business Customer's Problem

Most SMBs live in a world of paper, with repetitive data entry between different systems, both internal and external, i.e. service providers. These error-prone manual processes result from the "gap" between those "external processes" and the SMB's own "internal processes". This gap means that most have no real alternative to the burden of this manual work, a burden often borne by the owner or other key staff person, that's typically seen as a distraction from running their business.

In short, business customers need "business process integration". They want services that fit the way they do business. This includes workflow, approval permissions, and integration with their business systems, where every business transaction is entered. Leading FIs' and FI solution providers' web offerings now increasingly include permissions, approvals and other "process" features. However, integration with customers' systems remains a larger gap – one that is hard to address via the web.

Larger corporate customers value this integration, and have IT staff that can implement it. Even in the retail market, millions now use online banking services integrated with Quicken & Microsoft Money. SMBs, like larger businesses, must record every transaction, so their integration needs are similar – but lack in-house IT capabilities. Solutions that save them time are highly valued – and integration, e.g. "works with QuickBooks" is a value proposition with proven sales and customer retention value.



The Problems with Today's Service Delivery Technologies

Traditional Banking Client Software Offerings

To this day, many FIs have offered proprietary client software solutions, in particular for mid-market and corporate treasury customers. Client software solutions offer usability benefits in complex, high-volume, transactional applications as compared to the Web. However, several issues have consistently arisen with such solutions, driving a shift to other channels, notably Web-based delivery.

- Custom software development is slow, expensive, and hard-to-maintain
- Support burden from installation, connection, and usability issues
- Installation & training barriers to user adoption
- Software maintenance and version management issues

Standard Financial Software Packages

Standard software packages offer some considerable FI benefits, especially at the retail end of the market. When customers have already adopted software, the FI no longer needs to handle marketing, installation, or most support issues. For retail customers, Quicken and Microsoft Money essentially define the market – and for SMBs, QuickBooks (but few other packages) has added support for basic online banking. However, the FIs' ability to control or influence the user experience in these packages is severely limited, and FIs have historically faced business challenges in working successfully with these software companies. What's more, for QuickBooks in particular, online banking is considered a relatively minor user need relative to core accounting functionality. Predictably then, QuickBooks online banking features are seldom used, as they are too inflexible to fit either the SMBs' process, or FI's marketing and other service-specific needs.

Internet / Web Offerings

This need for flexibility and lower service delivery costs, drives the FI towards web service delivery. FIs have realized considerable benefits in getting a sizeable number of customers to adopt Internet Banking. Barriers to adoption are relatively low compared to traditional software offerings. However, despite the many benefits the Web offers, the integration gap remains.

FI Service Integration Opportunities

FIs can benefit from offering accounting integration as a service option in a number of areas.

Cash Management – Payables & Invoice presentment

Cash management solutions, for business payables in particular, are a key focus for many FIs' small business groups. Extending consumer payment capabilities to meet critical SMB needs touches on two key areas:

- 1) *Payments approval workflow.* For mid-sized businesses in particular, this often requires multiple approval roles (e.g. a clerk enters and schedules payments, owner approves).
- 2) *Invoice workflow & accounting integration.* Essentially all business payments require an approved invoice. For the 70-80% of businesses who use accrual accounting, invoices must be entered into the business accounting system.

Indeed, given the complexity of calculating payments due based on discount terms, credit memos, and multiple deliveries, most businesses use the A/P features of their accounting software for calculating and issuing payments. Getting the invoice approved and into the accounting software.

While banks are increasingly offering electronic presentment of consumer bills as part of their bill payment service, this falls well short of meeting SMB needs.



Online Banking – Statement Download

Even basic online statement download is sub-optimal from the FI perspective. As a key communication with all customers, the statement is an important marketing communications vehicle, not just a way to deliver transaction records. And even for transaction records, most FIs' statements include information that standard accounting software does not handle. What's needed is a way for FIs to deliver electronic versions of their statements that improve on the paper version (for example, by enabling customers to click on marketing messages), while also delivering the data customers want to integrate with their systems.

Receivables Management (Lockbox & Factoring)

FIs have traditionally offered services relating to both the processing of receivables (i.e. lockbox), and also their financing (factoring). However, certain barriers have prevented these services being widely adopted by SMBs – one key barrier being the difficulty of the required integration with the business's internal invoicing and remittance handling processes. In factoring, the FI typically needs to know when a valid invoice is sent, and to be able to capture the customer's remittance. For lockbox services, the cost of exceptions and reconciliation to invoices are key. Both barriers can be addressed with software that seamlessly integrates an SMB's outbound invoice and inbound remittance processes with the services that handle the out- and in-bound transaction processing.

Merchant services

Merchant services can be among the most profitable services FIs offer SMBs – but are typically very complex for SMBs to manage. Reconciliation of payments received can be a nightmare – matching up payments not only against invoices or orders, but also handling discount and other fees, and indeed chargebacks. In a number of cases, there may be several workflow steps involved. Evidence suggests that solutions which simplify this process for SMBs have much higher customer satisfaction – and that translates into improved customer acquisition, retention and profitability. Merchant services' discount fee structure lends itself well to bundling of other services or capabilities to offer a more complete solution – web e-commerce (see next) being one example that some FIs offer. To handle the merchant transaction process problem outlined here though, what's needed is a system that can interface the SMB's accounting and order processing with the various transaction notifications and services offered by the FI.

E-Commerce (B2C and B2B)

Recently, many SMBs have adopted e-commerce for different aspects of their business – services both for B2C (or web store) and B2B (or Electronic Data Interchange, EDI). The payment aspect of these transactions is an obvious area of FI involvement – but to drive adoption, it needs to work with other aspects of these transactions for the full service to function as an SMB user expects. Such services are already offered by a few leading edge FIs, representing an opportunity to differentiate offerings, and capture additional transaction fees.

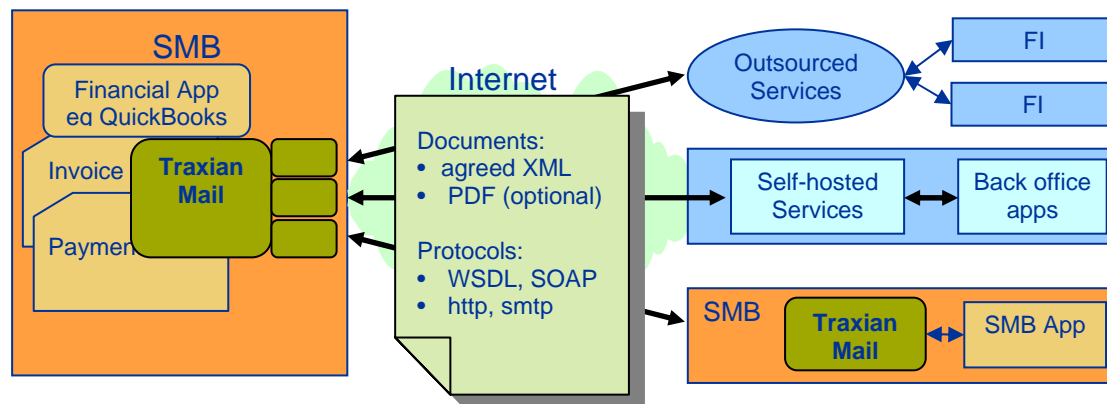
Businesses selling directly to consumers (B2C) may need the capability to receive orders and collect payment through their website (typically via credit card). These, and other related transactions, all need to be entered into the accounting system. Some FIs have started offering web store services as an extension of their merchant service business. The ability to price the complete web store offering into the discount rate merchants pay can be a powerful way to differentiate from commodity merchant service offerings, and improve customer retention with an easy-to-adopt, bundled service.

Increasingly SMBs who sell to large enterprises are asked to adopt EDI or other forms of B2B e-commerce. Often, SMBs see this as a burden, as traditional, non-integrated offerings are often more work than paper, sometimes even requiring different systems for different customers. A specific type of transaction that large enterprises often seek to automate is the invoice-to-payment exchange – with both vendors and customers. As FIs increasingly offer invoice presentment as part of their payables solutions, they can use connectivity with B2B electronic invoices to both deliver a more compelling SMB solution, and potentially capture increased transaction fees.

How Web Services Technology Changes Economics of SMB Services

New Web Services technology enables the next generation of Financial Services delivery, overcoming many of the disadvantages of traditional software approaches, and leveraging Internet service delivery platforms. FIs can benefit from offering an integration option as part of their services, for example:

- Up-selling basic service users
 - Deliver integration as an “add-on” to Internet services customers already use
 - Convert basic (free?) Internet users to paying
- Reduced barriers to business adoption
 - Document-centric approach (leveraging PDF) is easier for paper-centric businesses
- Enhanced customer relationships & cross-selling
 - Desktop delivery of FI services enhances customer relationships
 - Brandable interface & software “building blocks” allows control of customer experience
 - Easy extensibility to add new services facilitates cross-selling
- Easy, low-cost implementation
 - Support from key FI outsourcers – delivered to FI as a complete, integrated offering
 - “Web Services” technology enables easy integration with FI’s web platform
 - Client-side technology deployment minimizes IT impact
- Supportable & maintainable technology
 - Leverage of web platform minimizes cost of keeping client software in synch
 - Standard software platform enables scalable, outsourced support model



SMB End-User Requirements

Since most SMB partners are not technically sophisticated, the ideal solution needs to deliver value for them – while presenting the minimum of barriers or obstacles. That means it should be:

- EASY... to set up, and use
- Works the way they do – integrates with their business applications and processes
- Saves them time – faster and better than their old way, no double data-entry

The Traxian Solution

Traxian Mail is a “Web Services client” that easily integrates services delivered via an FI or outsourcer’s Internet service platforms with popular SMB applications (e.g. QuickBooks, Excel...). It enables easy, one-click sending, receipt & reconciliation of transactions right from within the user’s application. Easy pre-configured setup ensures that Traxian Tmail “just works”.

Contact

To learn more about how Traxian can help your business, please email info@traxian.com.