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The State of Small Business Banking



The Small Business Market

Most businesses in America are considered small, and one in two people work for them. Small businesses create millions of jobs, generate billions in lending from financial institutions, and contribute almost half of the nation's GDP.¹ Small businesses truly are the backbone of the American economy, yet are often left behind or underserved when it comes to innovation.

IMPACT OF U.S. SMALL BUSINESSES¹

30.2 million SMBs

- 99.9% of US businesses (less than 500 employees)
- 58.9 million employees
- 47.5% of US employees approx.
- 40 million < 100 employees
- 20 million < 20 employees
- 1.9 million new jobs in 2017
- 40% of job growth in 2017

To better understand how technology can assist the continued growth and prosperity of this vital market, first let's take a look at the practical, tangible needs of the small business owner.

¹. Small Business Profile
<https://www.sba.gov/>

I Needs of the Small Business: Cash Flow and Lending

Small business owners are heavily focused on improving one thing: cash flow. Too often, they face difficulty in not only managing, but even understanding, this critical component to overall fiscal health. In fact, this cash flow problem causes 82% of small business to fail completely.²

In addition to cash flow, small businesses are also concerned with **payment processing, access to better services and advisors, and are seeking more confidence in their banking relationship.**

In particular, the revenue-generating payment industry has captured some of the small business market with simple, online tools. The increase of third-party providers for payments disrupts the relationships banks and credit unions have with their small businesses, and creates opportunities outside of the traditional banking system for the small business to try and manage their cash flow.

“Small businesses are expanding their use of digital and mobile channels and are increasingly looking for best-of-breed solutions for their businesses that may

extend beyond their merchant bank’s capabilities as they try to compete with larger businesses for consumers’ attention,” notes the author of this report, Karen Augustine, Senior Manager, Primary Data Services at Mercator Advisory Group.³

A small business’ cash flow problems can present a huge opportunity for financial institutions: lending. In 2017, a lack of capital was cited as a major challenge facing business owners. But as in-person interactions continue to decline, more small businesses will turn to digital channels and alternative lenders to initiate their requests.⁴

2. Jessie Hagen of U.S. Bank on Why Small Businesses Fail <http://www.score.org>

3. Payment Acceptance as Digital Channels Expand <https://www.mercatoradvisorygroup.com>

4. <https://www.guidantfinancial.com/small-business-trends/>

In 2016, 5.7 million loans under \$100,000 (valued at \$82.6 billion) were issued by FIs.⁵

In analyzing nearly 150,000 small business borrowers, Kabbage found a 300 percent increase in the number of loans accessed via mobile devices. Researchers noted that 17 percent of SMB loans, and nearly 15 percent of total loan value, accessed via the Kabbage platform are done so through mobile devices. According to Kabbage chief revenue officer Victoria Treyger, the data “is evidence of an enormous change occurring in this industry.”

| Getting More Done Online for Less

Digital is tremendous in its potential to reduce costs. Visa estimates the cost of online payments are 57% less for small businesses, *and* customers spend more when they use cards instead of cash. Plus, it's what customers want: 78% of them say a digital payment method is preferred.⁶

Many small businesses, though, still don't accept online payments. Despite the savings in time, and the effect of pleasing customers, transaction fees are often too high when a small business operates on slim margins – and that can affect growth.

5. Small Business Profile
<https://www.sba.gov/>

6. Digital Transformation of SMBs <https://usa.visa.com/run-your-business/small-business-tools/small-business-digital-transformation.html>

| Small Business Attrition and Retention

It's not surprising that small businesses that grow sales by 20% or more annually are more satisfied with their banking experience.⁷ Growth is good for everyone involved. What contributes to that growth, and therefore, to the relationship with the financial institution?

The irony is that growth also leads to opportunity for attrition. As a business grows its needs change: nearly a quarter of those fast-growing businesses switched financial institutions recently, in search of better products. When it comes to switching financial institutions for products and services, these coveted businesses look beyond the bank. 73% of the fast-growing businesses considered a non-bank alternatives to meet their capital growth needs.⁷

"If the business is growing, the owner is more likely to need new loans and banking products, and that makes them look around at other options," said Jim Miller, Senior Director of Banking at J.D. Power. "Once they start exploring, it often doesn't take long to move from considering switching banks to actually switching. For the banks, that means the risk of potentially losing customers, but it also creates the opportunity to acquire new customers from competitors. It's critical that the banks consistently communicate the other products and services they have to help businesses continue to grow."

Community banks can position themselves as the ideal home for a growing small business. It takes a little planning, and the right mix of products. Small businesses are seeking the ability to utilize mobile banking, online expense tracking, and digital financial management tools. An easier, more streamlined loan application process is also important.

This type of innovation doesn't happen overnight. How can financial institutions rapidly offer the right services to meet the digital demands of small business owners?

⁷. Power US Small Business Banking Satisfaction Study <http://www.jdpower.com/press-releases/2016-us-small-business-banking-satisfaction-study>

Small Business as Growth Opportunity for Banks

When a financial institution helps their small businesses grow, it directly benefits the bank as well. Small businesses, and their personal needs, represent a sizable percentage of revenue generated by the bank. It starts with a smart understanding of what it is that small businesses need, and making services easy to use. A better onramp and targeted digital banking environment can boost small business revenues by as much as 25%, while reducing the cost of servicing the businesses by upwards of 50%. ⁸

According to a Simon-Kucher & Partners report, almost 75% of banks are not able to generate the amount of revenue they should from small businesses, resulting in 25% less profit on average. ⁹ Autobooks represents an affordable and efficient path to offering the essential products and services a small business needs.

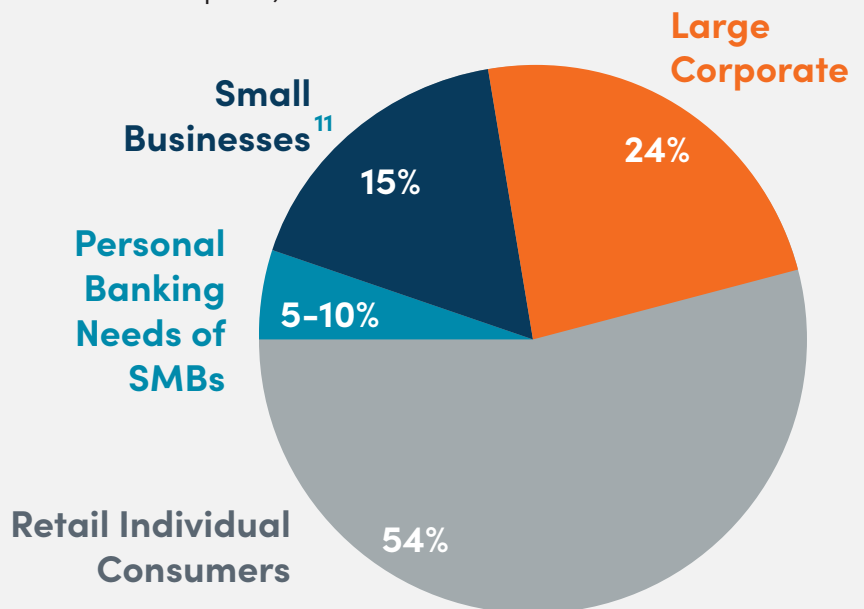
10. Net of charge-offs

11. Defined as businesses with less than \$20 million in annual revenues

Source: McKinsey Global Banking Profit Pools; U.S. Small Business Association

Small Businesses represent a meaningful portion of overall banking revenue pools

Revenue (fees and interest) after risk cost from U.S. credit ¹⁰ and deposits, 2011 100% = \$780 billion



⁸. BCG's 2016 Corporate Banking Performance Benchmarking <https://www.bcg.com/en-us/industries/financial-institutions/corporate-banking.aspx>

⁹. Financial Brand: Digital Banking Strategies for Small Business Customers <https://thefinancialbrand.com/64333/small-business-banking-product-bundling-revenue-trends/>



Case Study

Choice One and Autobooks

ChoiceOne Bank
Sparta, Michigan
www.choiceone.com

Autobooks Launch: **September 2017**

ChoiceOne Bank was named one of the most innovative community banks in the country by the Independent Community Bankers of America® (ICBA), the nation's voice for over 5,800 community banks. ChoiceOne Bank prides itself on supporting their local small business customers with financial technology with mobile banking, mobile deposits, innovative payroll solutions, online loan applications and online account openings. By working with Autobooks, ChoiceOne Bank further expanded its digital offerings for businesses.

Autobooks works with major core banking providers. This enables financial institutions to deploy Autobooks quickly and cost-effectively, with many benefits for the FI and SMBs:

Financial institutions can gain more insight into their customers

- Core integrations pulls customer demographic, account, and transaction data

SMBs trust the security of using a new product in their own banking environment

- SSO integration for delivery of the Autobooks experience directly within existing banking channel

Easy expense management for seamless reconciliation

- Business bill pay integration for a consistent payment experience across digital banking channels

Learn more at autobooks.co

| ChoiceOne Launch Results

103 Active Small Businesses

(50% increase with Fall launch marketing campaign)

Businesses Are Paid Faster

~16 days (on average)

Improved User Engagement

~20 logins/month (>25% mobile)

3.4% Adoption

103 of 3,062 qualified small businesses have enrolled

ChoiceOne Bank
is **growing**
deposits,
increasing
service-fee
income, and
identifying
new **lending**
opportunities.

| Small Business Customer Case Study

Rockford's Official Athletic Report (ROAR) <https://www.rockfordroar.com> was founded in March of 2018 with the intention of filling the a gap missing in their community: coverage of its local sports.

When it came time for ROAR to choose a bank, ChoiceOne Bank was a natural fit. ChoiceOne Bank is known in their community for building relationships and supporting businesses. With a central downtown location and involvement with the local Chamber of Commerce, ROAR felt right at home with ChoiceOne.

ROAR was set on using Quickbooks, until ROAR's relationship manager at ChoiceOne introduced them to Autobooks. With Autobooks, ROAR was able to eliminate having to maintain a third party application and the additional expense of hiring someone to manage their accounting.

After their successful launch, ROAR is looking forward to increasing community opportunities. With the support of a community-driven bank like ChoiceOne, and the ease of using Autobooks, 2019 is shaping up to be a great year already.

"Autobooks is great for everything we needed to do, like billing and collection. It's user friendly and not overly complicated."



About Autobooks

Autobooks enables simple banking that works for small businesses.

We work with financial institutions to deliver what small businesses need: accounting, invoicing, and payment services integrated directly into current digital banking channels.

To learn more visit autobooks.co

Or

**Contact: Mike Dillon - Director of National Sales
mike@autobooks.co**

D: 773.831.6377

O: 866.617.3122