

The Ecosystem Route to Revitalizing Small and Medium Businesses in the Post COVID Era

Banking, Financial Services and Insurance



PURPOSE-DRIVEN

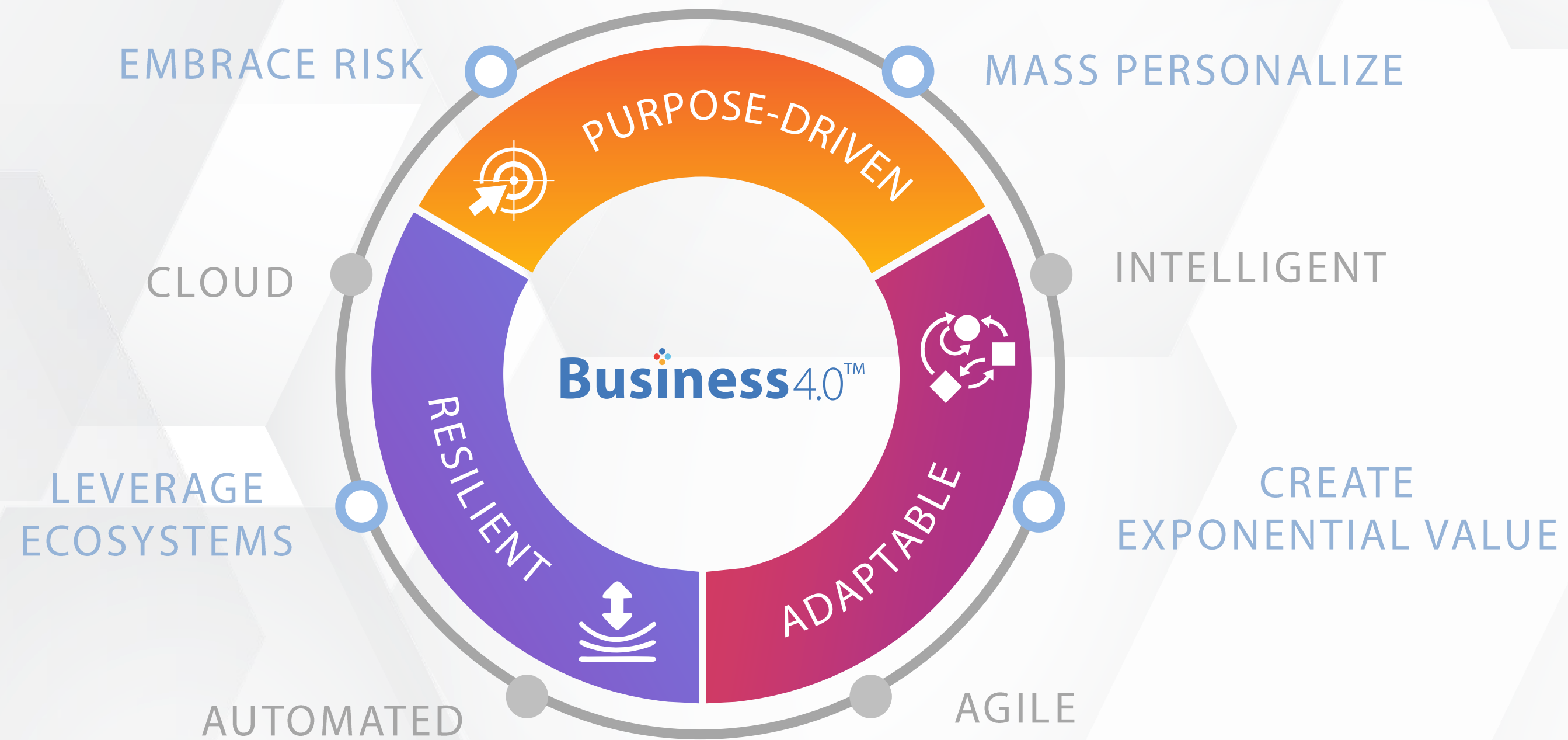


RESILIENT



ADAPTABLE

PURPOSE-DRIVEN, RESILIENT, ADAPTABLE BUSINESS 4.0™



About the Authors

Vivek Iyer

Vivek Iyer is a senior consultant with the Industry Advisory Group of TCS' Banking, Financial Services, and Insurance (BFSI) business unit. His areas of focus include lending and credit management. He has around 13 years of experience with expertise in the commercial and consumer lending space, and focuses on industry advisory, thought leadership, and solution conceptualization. Prior to joining TCS, Vivek worked with leading multinational banks in commercial lending as well as product development for Oracle's Flexcube suite of financial solutions. Vivek holds a Bachelor's degree in Computer Science and Engineering from the University of Pune, India and an MBA in Finance and Corporate Strategy from the Indian Institute of Management, Indore, India.

Rajesh Ramar

Rajesh Ramar is an industry advisor with the Industry Advisory Group of TCS' Banking, Financial Services, and Insurance (BFSI) business unit. He leads advisory services for lending and credit management. He works with global banks to help them define, plan, and achieve their growth, transformation, and sustainability objectives. He has about 24 years of experience in delivering client specific advisory engagements and solutions, providing thought leadership, developing solutions and assets leveraging emerging technologies, and building organization-wide capabilities in the lending domain. He holds a Bachelor's degree in Mechanical Engineering from Bangalore University, India.

Abstract



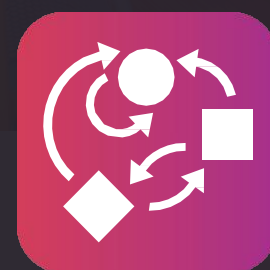
With small and medium businesses (SMBs) increasingly turning to alternative providers for quick financial solutions, fintechs and large technology companies have slowly taken over the SMB market share from incumbents. Over the last few years, traditional banks' focus was centered more on retail and large commercial customers and the SMB segment was neglected. However, the economic crisis unleashed by the COVID-19 crisis offers banks and financial institutions an opportunity to re-establish primacy in the SMB segment. This white paper discusses how banks can build an ecosystem to serve their SMB customers through the entire business lifecycle. It also highlights how banks can leverage ecosystems to deliver new services that go beyond traditional offerings, which in turn will help SMBs grow and revitalize their businesses.



PURPOSE-DRIVEN



RESILIENT



ADAPTABLE

Transforming SMB Banking: Moving from Transactions to Relationships



In response to the surge of fintechs in the SMB banking space, banks attempted to enhance their services and formalize it as part of their business strategy. However, the COVID-19 crisis has resulted in the SMB segment taking center stage. Banks have had to step in as a conduit of government aid programs in many countries. To help SMBs tide over the crisis, funds under government aid programs are being funneled through banks.

Banks must grab this opportunity to handhold SMBs through trying times and ensure that the intimacy generated during this period fructifies into strong, long term relationships resulting in greater wallet share. Banks must redefine their role and evolve into change agents in the post COVID world by facilitating the recovery of SMBs in turn rejuvenating economies. In doing so, banks will have to relook at their existing SMB portfolio, craft innovative offerings beyond traditional offerings, and ensure effective delivery. To achieve this, banks will need to move to ecosystem models and bring in new capabilities through ecosystem partners.





Reimagining SMB Customer Experience through Ecosystem Play

Customer expectations in most industries today are set by technology giants. Customers that are part of a technology ecosystem are accustomed to comprehensive services that cover most of their needs. SMBs have similar expectations from their financial service providers. They prefer banks that are one-stop-shops and cater to all their needs, instead of having to tie up with multiple solution providers. The one-stop-shop experience will set the benchmark in customer expectations in the post COVID-19 era.

A major pain point for SMBs is managing administrative tasks such as accounting, invoicing, handling payrolls, managing insurance, and paying utility bills. Dealing with individual providers for each of these services eats into a firm's time, diverting attention from more value-adding activities like exploring new opportunities, meeting clients, and developing new offerings. Banks must grab this opportunity to support SMBs by creating a single digital platform that brings together a variety of services to handle time-consuming administrative tasks. Addressing such long-standing pain points will not only help banks to drive engagement but also lay the foundation for a long-term relationship. It will also pave the way for banks to become an integral part of SMBs' day-to-day operations and increase wallet share.¹



Clearly, there exists tremendous scope for banks to create beyond-banking digital ecosystems that meet SMB customers' needs through a single, readily accessible platform. Besides creating new revenue streams, such ecosystems will free SMB entrepreneurs to concentrate on their core business activities, allowing banks to focus on developing new value propositions. In our view, banks must engage with SMBs across the business lifecycle – launching the business, running the business, and growing the business.

¹ TCS, SME Banking: Ushering in Winds of Change with Open Banking, Nov 2019, Accessed August 2020, <https://www.tcs.com/ushering-in-winds-of-change-with-open-banking>



Launching the business

Helping SMBs at the inception stage with registration and other legal formalities can help banks source new customers and build intimacy. A business registration solution that integrates government business registries and a checking account opening service can help reduce barriers to establishing new businesses. The solution can also include tools to build a digital storefront for the business, thus helping SMBs to quickly establish an online presence and start generating revenue. Property portals can be embedded into the ecosystem to help SMBs rent business premises and begin operations.



Running the business

Developing an SMB ecosystem allows banks to access data. For example, banks can integrate accounting packages and enterprise resource planning (ERP) systems into banking platforms to link business transactions with the actual movement of cash in the checking account. Real-time access to such transaction level data combined with visibility into upcoming payments and receivables can enable profiling of SMB customers to proactively recommend credit products. For instance, when an analysis of transactions reveals potential cash flow mismatches, banks can reach out to SMBs with temporary credit facilities. This approach goes beyond the traditional method of judging credit needs based on financial statements. Transaction based credit assessment can facilitate cash flow-based lending as opposed to collateral based lending. This type of lending is ideal for startups and technology-oriented businesses without collateral. Additionally, access to transaction level data can help banks to provide payment and collection management services to SMBs. For example, the bank's platform can automatically schedule payments to key suppliers subject to customer approval.



Growing the business

Banks can help SMBs to identify new growth opportunities by plugging them into business-to-consumer (B2C) and business-to-business (B2B) marketplaces. Marketplaces can be established to connect SMBs and enable them to do business with each other. This is especially helpful for B2B businesses in niche industries as they usually find it challenging to find new customers. An additional benefit is that banks can provide insights on the financial health of such parties; consequently, SMBs can steer clear of dealing with financially unsound entities. Embedding networking forums into these platforms can help SMBs to interact with their peers, and gain from each other's experience.

Building a digital ecosystem that brings together large corporations and their SMB supply chain partners on to a single platform can help banks significantly enhance their supply chain finance offerings. Embedding capabilities to track and verify invoice payments can facilitate digitalization of the invoice discounting process and deliver faster credit to SMBs.

Offering advisory services through these platforms is another avenue for banks to engage with their SMB customers. For example, banks can perform diagnostic exercises to identify areas where cash flow can be unlocked to improve liquidity and optimize working capital. This can be delivered either as a bespoke solution or as a digital toolkit that enables comparison of working capital performance with peers and industry benchmarks. Additionally, banks can offer insights on local consumer demographics, the market, and competing products by analyzing retail banking customer spends. In fact, some banks have already embraced the ecosystem concept – a leading Indian bank has created a digital ecosystem to enable seamless connections between companies and their supply chain network constituents.²

² ICICI Bank, CorpConnect: Digital Financial & Supply Chain Platform, Accessed Sep 2020, https://www.icicibank.com/html/en/sme/digital-finance-supply-chain.html?ITM=nli cms HOMEPAGE cardslider sme_index corpconnect_btn

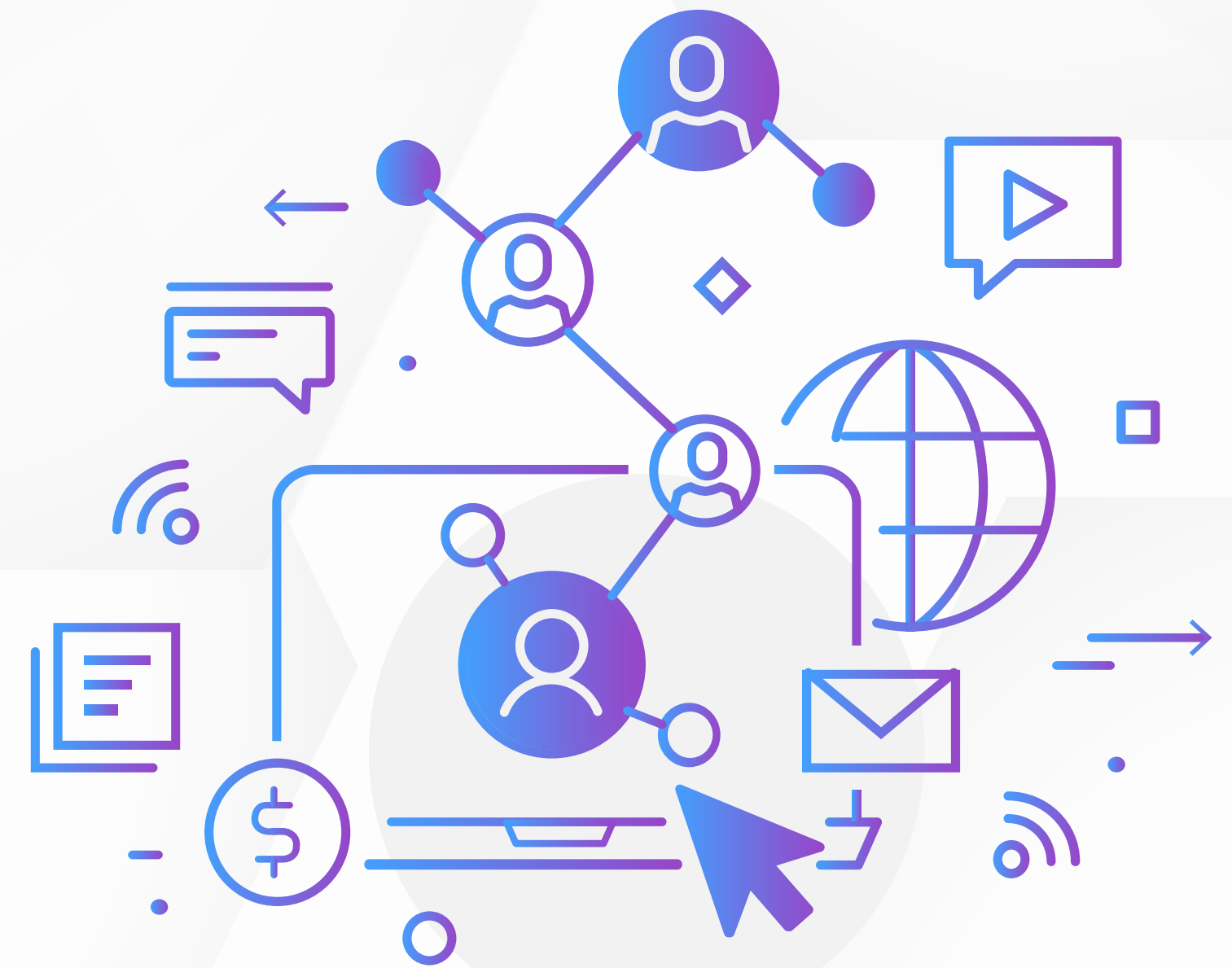
Building Digital SMB Ecosystems



Putting together a digital ecosystem integration platform and co-developing SMB specific offerings in collaboration with partners will help banks deliver a unique value proposition and enhance experience. To build an SMB specific digital platform, banks must:

- Curate a network of ecosystem partners in their respective service or product lines
- Run a pilot to test market acceptance and subsequently scale up by adding partner offerings
- Ensure seamless integration of the platform and ecosystem partners' solutions with customers' systems as well as banks' systems
- Adopt robust privacy and security frameworks to ensure compliance with regulatory norms on data sharing
- Design the ecosystem platform either as a standalone application or integrate it with existing applications

Developing platform capabilities like digital marketplace and adaptive supply chain finance models help tap opportunities across the value network by enabling horizontal and vertical interactions between banks' customers. Additional platform capabilities like forecasting and analytics toolkits can drive insight led customer engagement and decision making. In addition, banks must explore multiple monetization avenues such as designing bundled offerings and identifying cross sell and upsell opportunities based on insights driven profiling. Revenue can also be generated through subscription fees for ecosystem offerings, commission on revenues generated by partners via the ecosystem, and fees on insights and market intelligence provided to ecosystem partners. Digital ecosystems can also deliver indirect benefits such as higher net promoter scores. Furthermore, bundling services that help with running and growing the business can increase customer stickiness.





The Bottom Line



Banks have always played a key role in SMBs' day-to-day operations through their checking account offerings. However, many SMBs have turned to alternative providers for other financial services due to banks' inability to craft targeted offerings for the SMB segment. The COVID-19 crisis provides traditional banks an opportunity to regain their supremacy in the SMB banking segment given that they are the primary channel for the flow of government aid. Banks must capitalize on this opportunity by building digital ecosystems to support SMBs through different stages of the business lifecycle. Creating such customer lock-ins will increase switching costs and help banks identify new growth opportunities to thrive in the post COVID-19 era.

Contact

For more information on TCS' Banking & Financial Services, please visit <https://www.tcs.com/banking-financial-services>

Email: bfsi.marketing@tcs.com

About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match.

TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com

All content / information present here is the exclusive property of Tata Consultancy Services Limited (TCS). The content / information contained here is correct at the time of publishing. No material from here may be copied, modified, reproduced, republished, uploaded, transmitted, posted or distributed in any form without prior written permission from TCS. Unauthorized use of the content / information appearing here may violate copyright, trademark and other applicable laws, and could result in criminal or civil penalties.

Copyright © 2020 Tata Consultancy Services Limited



PURPOSE-DRIVEN



RESILIENT



ADAPTABLE