WHITE PAPER

What SMEs really want

How banks can successfully meet evolving needs

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What do SMEs want from their banks and what could they easily do without? To find out, we sat down with SME owners and executives across three European countries and asked what mattered most to them.[1] Their answers reveal the complexity of SME needs and instructive insights into SME priorities as the competitive environment evolves.

When it comes to how they interact with their banks, SME decision makers encompass both tech lovers and traditionalists. About 20% express a preference for pure digital channels, while the same proportion prefer human-only interactions. The majority say they like a mix of the two, providing both digital convenience and human expertise when necessary. Indeed, SMEs gravitate toward institutions that offer more than vanilla banking services.

SME customers want their banks to provide services that help them navigate ESG and taxation, as well as the sophisticated technologies and tools they need. Other favoured topics include financial management, legal, compliance, and accounting, and customers ideally want these services to be available via digital interfaces.

This range of SME demands tends to advantage larger financial providers over niche propositions, and about 86% of companies we spoke to in the UK, Belgium, and the Netherlands have primary or strong relationships with incumbents.

When it comes to digital banking platforms, 53% of SMEs say they are satisfied and 39% say they are “very satisfied”. Meanwhile, 34% take at least some of their business to new digital entrants, with companies under 10 years old most likely to switch and alternative payments services being the most commonly explored category.

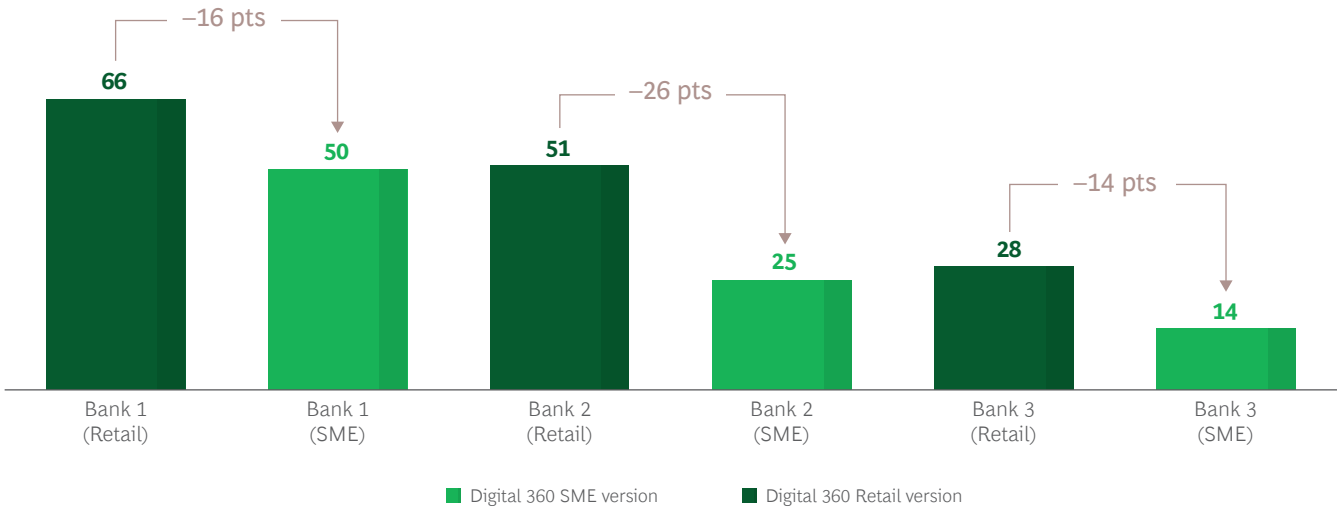
More concerning for incumbents is that about 10% of SMEs look elsewhere for their primary banking needs, and another 11% are considering switching. According to our survey, high fees and pricing are the top reasons that SMEs get itchy feet, followed by unmet transaction needs and patchy digital provision, both accounting for 27% of switching decisions. Indeed, 63% of SMEs who call their RMs do so because they are struggling to make digital work.

This is also confirmed by BCGs Global Digital 360° diagnostic, which reveals a weak digital offering today for SMEs, with limited capabilities online and in the mobile app. Even within the same banks, the digital capabilities towards SMEs are approximately 5 years behind their retail channels. (See Exhibit 1.)

Taken together, the results of our survey amount to a call to action. In their next phase of planning, hiring, and technology roll outs, banks that are serious about serving the SME segment need to embrace a **more comprehensive approach to meeting SME needs**. In this paper, we highlight four potential levers for doing so: digitisation, front-to-back efficiency, front-line effectiveness, and supporting clients to navigate areas like ESG. These can individually and collectively boost bank capabilities and become pillars of SME engagement in the coming year and beyond.

1. BCG 2023 SME survey (UK, Belgium, the Netherlands), December 2023.

Exhibit 1 - SME & banking behind Retail channels



11 key capability areas benchmarked

Daily banking and servicing
- Money insights and liquidity
- Product application and fulfillment
- Transfer and payments
- Self-service features
- SME-specific features

Engage
- Product research
- Login and security
- Usability and customer delight

Offer and sell
- Marketing and engagement capabilities
- Assisted sales and support
- Third-party products

Banks struggle to keep up with evolving SMEs needs

The responses to our survey, combined with our deep experience working with SME banks globally, reveal **three key reasons** why some traditional SME banks are at risk of falling behind their digital native peers:

SME needs and expectations are changing

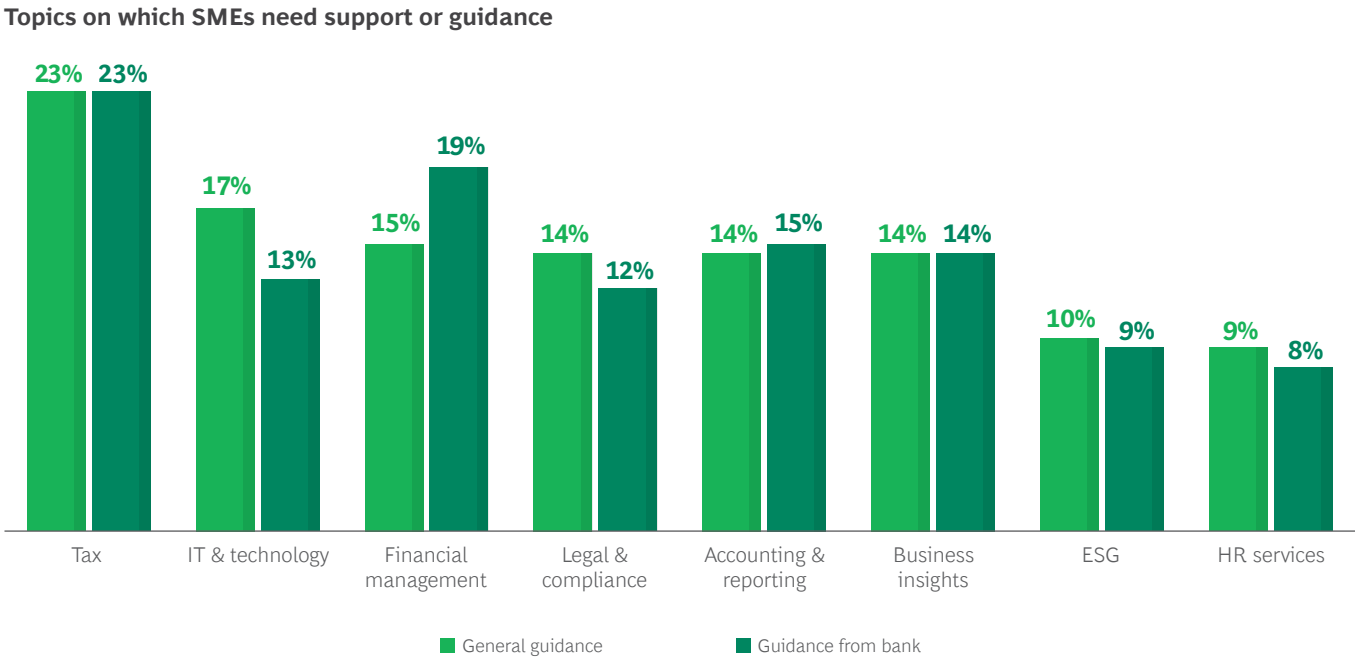
Mirroring the global transition of businesses to digital, just 20% of SME channel preferences are for human-only interactions - while 21% are for pure digital and 59% are for hybrid. These demands are already reflected in some SME banking services, amid increasing prevalence of features such as e-signatures, online loan applications, and advanced self-service tools.

One UK bank has built a user-friendly interface to offer quick, unsecured loans of up to £150,000, while another uses voice recognition for authentication. Despite this, these examples are by no means universal, and many banks are yet to make digital pay.

Within digital environments, SMEs appreciate solutions in transaction management, customer support, and security the most, as cited by 50%, 47%, and 28% of survey respondents respectively. But they also increasingly value features that sit slightly outside core bank competencies, such as integrated accounting, customised reporting, tailored insurance products, and investments. (See Exhibit 2.)

What is concerning for banks is that SMEs are not always convinced that their banks can deliver on what they need, believing them to be overly sales focused. Support on ESG topics is a prime example, with SMEs increasingly receiving sustainability-related questions from larger clients and their distribution networks. In our view, these perceived shortcomings are partly due to the risks associated with serving the diverse SME segment. Given the economics, banks often take a one-size-fits-all approach, covering all the bases but often leaving SMEs underserved when it comes to specific needs.

Exhibit 2 - SMEs seeking business guidance on multiple topics from their banks



Serving SME clients is complex

A significant challenge associated with serving the SME segment is its heterogeneity, both in terms of activity and maturity. At the same time, SME revenue potential is lower than large corporates, as illustrated in 2021 when 35% of EU SME loans were for less than €100,000[2]. This combination makes it challenging for banks to find the right balance in between a low-cost, one-size-fits-all approach, and a fully tailored approach with individual relationship managers and tailored back-office processes.

There is a risk of SMEs switching to digital native players

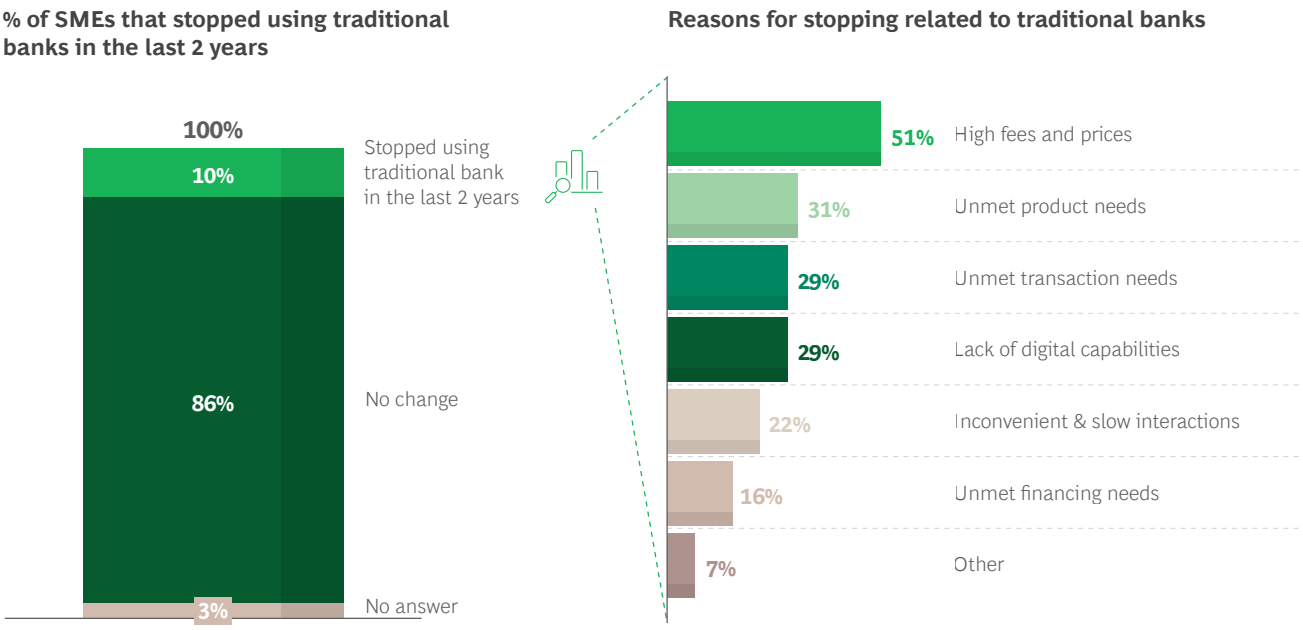
Our survey highlights that SMEs are increasingly amenable to working with fintechs, and in the past two years, 10% of SMEs in the UK, Belgium, and the Netherlands have shifted away from traditional banking to digital challengers.

SMEs cited that their top reasons for shifting include high fees (51%), unfulfilled product needs (31%), and a lack of digital capabilities (29%). (See Exhibit 3.) Because of this, digital natives see SMEs as a big opportunity and have been quick to integrate banking and payment services into their solutions. Free of legacy constraints, they find it relatively easy to deliver superior customer experiences, and these entrants are not afraid to try new things. For example, some e-commerce platforms are using transaction data to expand into SME lending and other business-as-a-service (BaaS) offerings.

SMEs appreciate these advances and rate the quality of services offered by digital disruptors as being on par with – if not better than – those of incumbents. One reason is that, away from key business decisions, SMEs increasingly prefer the simplicity and convenience of digital. In BCG's Global SME Banking Voice of Customer Survey[3], 58% of SMEs that had worked with a non-bank in the previous 12 months said their experience had been better than with their primary bank. Specifically, SMEs noted faster credit processing (59% of respondents), better credit access (41% of respondents) and improved digital capabilities (40% of respondents).

2. European Commission, Survey on the access to finance of enterprises (2021).
3. BCG, Global SME Banking Voice of Customer Survey.

Exhibit 3 - Key reasons for SMEs to switch to alternative FS providers



Four building blocks to serve SMEs better

The growing number of SMEs that are (or are considering) using specialty and digital providers suggests banks face an imminent moment of truth. To counter this threat, they need to switch away from incremental changes or digital plug-ins and consider more radical action. This would mean adopting an end-to-end approach that also serves SMEs cost effectively.

Here we have gathered **four ideas that have driven leading banks forward:**

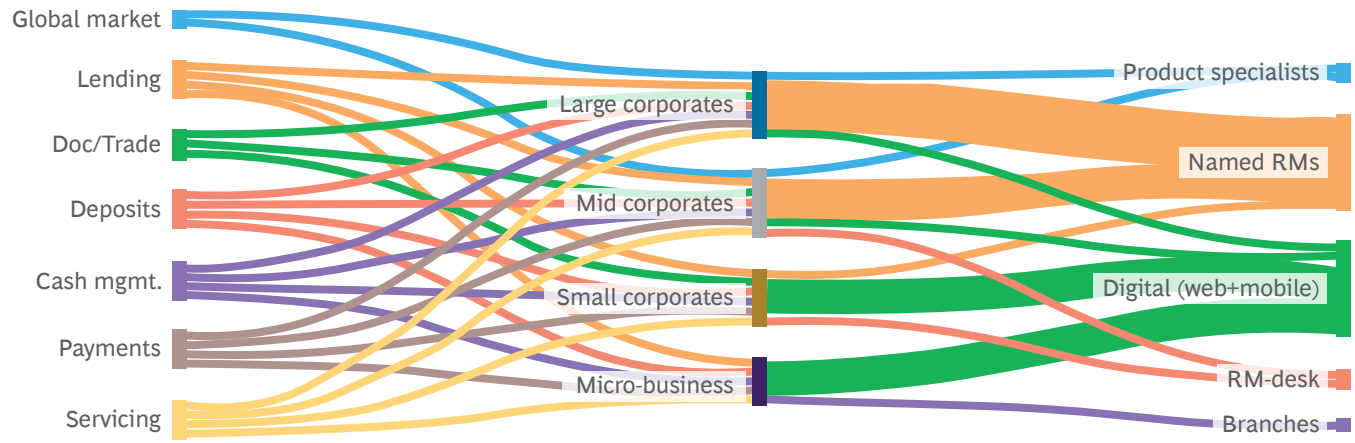
1. Prioritize mass customisation

Banks often see digitisation initiatives in isolation and focus mainly on replacing humans and cutting costs. This translates into a one-size-fits-all model and linear need-fulfilment patterns. Better models define customer centric propositions (combinations around channels, support, and products) aimed at specific customer clusters. (See Exhibit 4.)

To achieve a customer-centric approach that moves beyond linear dynamics, banks need to act on two fronts:

- **Profiling customer needs.** The best practice is to move beyond SME metrics like turnover and FTE numbers, and instead toward more complete and granular profiling. As a rule of thumb, banks should aim to create about ten clusters based on customer value and needs. In defining these, three perspectives are useful:
  - **Strategic** – where do I want to focus? (e.g., products, sector)
  - **Needs-focused** – when do customers require different types of support?
  - **Value-focused** – what is the value of each customer?

Exhibit 4 - Client fulfilment enhancement



- **Defining customer-centric propositions aligned with cost-to-serve.** Banks should aim to develop differentiated value propositions based on customer clustering that are aligned with cost-to-serve. (See Exhibit 5.) Many leading institutions shape their offerings to their product designs, channel preferences, delivery models and pricing. All of these will evolve as banks unlock new digital capabilities and digital uptake accelerates.

  The ideal engagement model for SMEs, and increasingly also for larger companies, is a digital-first approach that is enhanced by humans for complex interactions. Banks should enable self-service across onboarding and servicing, and for basic tasks and products. This will reduce costs and boost customer satisfaction through faster, more convenient, more seamless journeys. It will also free up time for relationship managers (RM) and specialists to focus on more complex and fast-developing opportunities.

2. Achieve cost efficiency through front-to-back optimisation

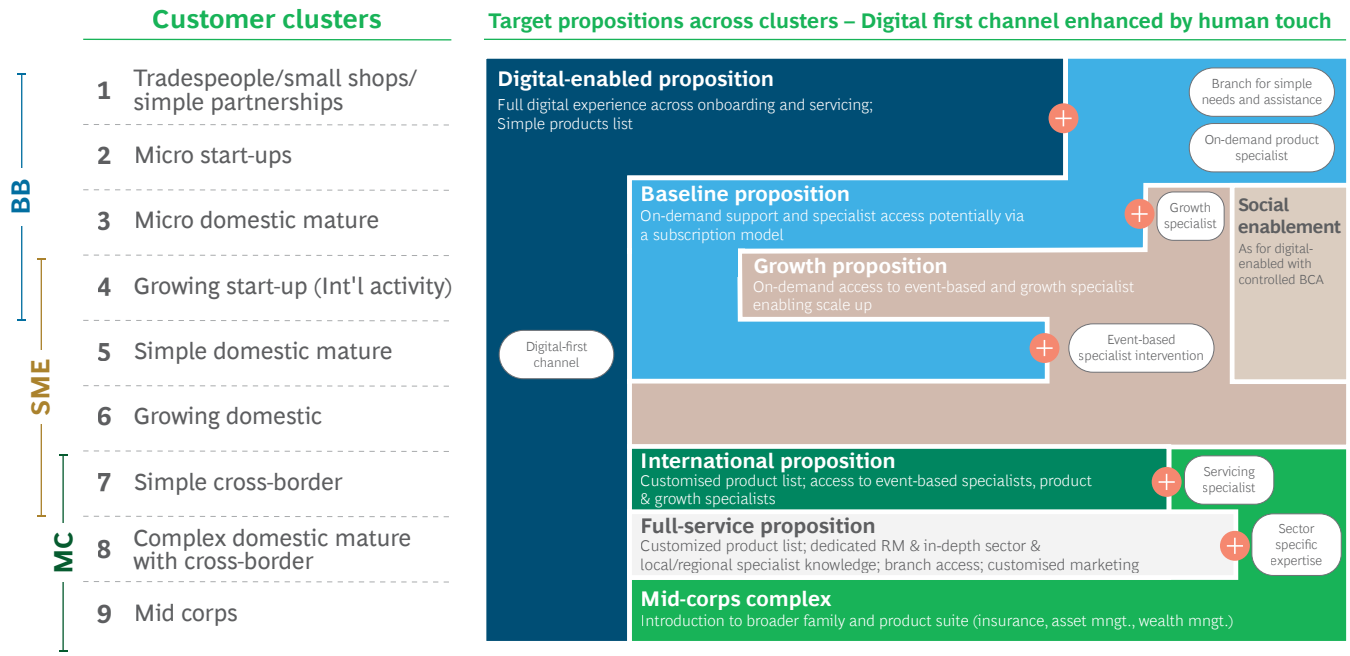
In the context of a volatile interest rate environment and rising costs, leading banks have benefitted by pursuing process optimisation in a front-to-back way. Not only does this help drive cost efficiency, but it is highly advantageous for keeping up with growing customer expectations. As a result, banks are identifying key value streams and mapping them across the organisation before prioritising two action areas: 1) building customer-centric front ends and 2) integrating interactions with digitised end-to-end processes.

Front-end customer-centricity aims to provide a frictionless and intuitive customer experience. For example, this is achieved via faster loan approvals backed by an integrated straight-through-processing solution. By way of a benchmark, many fintechs offer a 'time-to-yes' of less than one day.

In addition to the basic offering, leading banks have leveraged ecosystems of partners to offer services such as accounting or business planning support. Many also enhance their offerings through third-party digital solutions. This acknowledges the fact that SMEs increasingly prefer going to one place for all their financial service needs, with research[4] demonstrating that 64% would welcome an integrated offering via a single platform.

4. BCG & Adyen, The Embedded Finance Report (2022).

Exhibit 5 - Nine customer clusters and target propositions



Banks that score high on customer satisfaction often combine **three essential elements:**

- Customers should be able to complete processes in just a few clicks, and provide information only once (i.e., banks to only ask customers for incremental information).
- Instant data-rich notifications should add insights and value, while also prompting self-service (rather than more expensive back-office remediation).
- Customers should receive comprehensive FAQs and support (chat, phone) with easy expert escalation to resolve queries.

When it comes to **digitising, leading banks think front-to-back.** Many strike a balance between developing digital solutions in-house and partnering with specialised providers or fintechs. They go big on automation, artificial intelligence, modern data platforms, and agile ways of working – enabling them to build seamless digital customer journeys while running lean cost-efficient operations.

3. Boost Front-line effectiveness

For RMs, the key to profitability lies in consistent engagement with clients and the ability to offer personalised solutions. Successful RMs adopt an insight-driven approach, leveraging digital tools and advanced analytics to get timely, data-driven views of client behaviours. For example, transaction data has proven to be an important predictor of client's needs and behaviours. As such this creates opportunities for bankers to have more relevant discussions with their clients and creating opportunities for up-selling, cross-selling, or identifying potential client risks including client attrition.

In building and maintaining strong client relationships, we have seen how important it is to ensure RMs receive comprehensive training and are incentivised through KPIs. Robust change management is required to ensure data and tools are used appropriately to increase efficiency. Furthermore, there is an opportunity for RMs to be positioned as a versatile advisors. For instance, SMEs that are scaling up often struggle with digitising their sales and marketing, and banks can bridge this gap by recommending CRM tools and merchandising platforms. In turn, this provides banks with real-time data for credit assessment and potential fee opportunities.

In an AI-driven world, banks should explore how to become more customer-centric by leveraging opportunities created by the technology. This means providing tools that account for client needs (both sectoral and individual), and equipping RMs with the ability to provide personalised, differentiating offers that reinforce customer-centricity.

4. Deepen client relationships through Value-Added support

Best-in-class banks focus on deepening customer relationships through "off-topic" support. In this section, we use ESG as an example. With 50% of the SMEs in our survey highlighting ESG as a priority in next three years, banks should champion ESG as a core value driver. They need to provide SMEs with advice regarding risk mitigation, reputation, resilience and access to capital, while also helping them gather relevant information from their supply chains. (See Exhibit 6.) While these attitudes may differ across markets, with Europe being the most advanced on ESG topics, the direction of travel on this is clear and we expect ESG topics to eventually become more prominent for SMEs in other markets over time.

Our experience from working with SME banks in multiple geographies reveals **four key go-to-market approaches** that can support client ESG needs:

- **Build specific front-end expertise.** SMEs often lack the in-house expertise to effectively navigate complex issues. Because of this, RM upskilling is a key lever to help them engage more closely with customers and proactively identify opportunities to shape the agenda of their clients. Dashboards and benchmarking tools can support RMs and clients to have insightful dialogues, while in the background, dedicated specialists can help SMEs identify and prioritise key topics at scale, share knowledge, and develop strategies aligned with local markets and regulations.

- **Provide a range of dedicated ESG solutions and advisory.** Sustainable finance products can include green lending, green deposits, and green finance bundles, while advisory services may feature educational materials, data collection tools, and simulators. For example, HSBC launched a Carbon Insights tool for small businesses in March 2024 that leverages debit card information, enabling clients to access carbon emissions estimates by spend category. In parallel, Lloyds Banking Group (LBG) unveiled dedicated sustainability support for the agriculture sector, designed to help accelerate Net Zero progress by offering discounted finance as part of a concrete sustainability initiative.

- **Ensure clients can engage via digital platforms.** Beyond online simulation tools, digital engagement platforms can provide SMEs with easy access to data, news, subsidy applications, peer experiences, training, trend reports, and analytics tools. The latter may include carbon calculators, carbon reduction plans, and tools that support energy efficiency.

- **Create partnerships and ecosystems.** Partnerships and ecosystems offer SMEs access to a broad network of stakeholders. (See Exhibit 7.) Potential opportunities include vendor partnerships that streamline day-to-day operations, networking partnerships, knowledge and best practice sharing, access to funding, and potential exposure to new markets and commercial prospects – all of which can feed through to more effective ESG approaches.

Exhibit 6 - Importance of ESG challenges for SMEs in the next 3 years

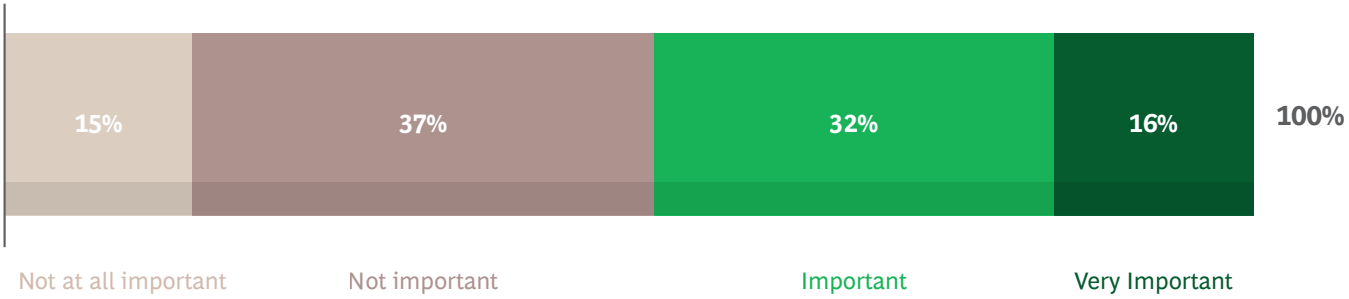
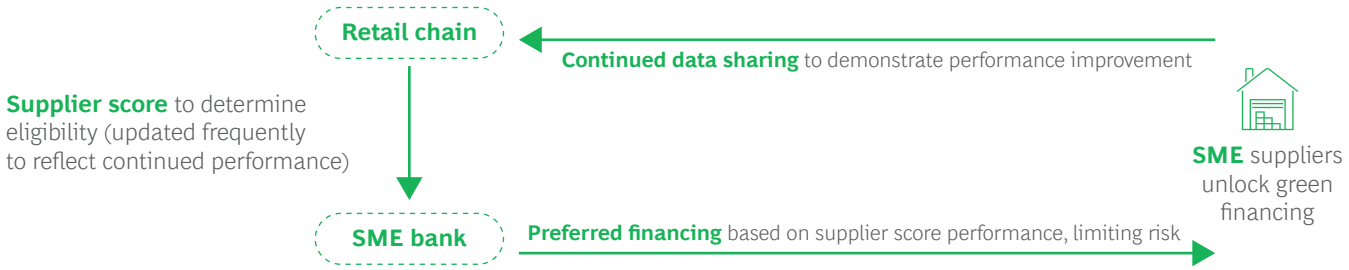


Exhibit 7 - Sustainable supply chain preferred financing



In conclusion, we see four clear actions banks must take to be successful in SME banking:

1. **Provide tailored offerings and mass customisation:** identify pockets of customers with the same needs and preferences and develop propositions tailored to these needs.

2. **Engage digitally:** increase efficiency and effectiveness end-to-end by engaging both customers and colleagues digitally.

3. **Expand into value-added offers:** support SMEs to navigate complex topics where they may lack the right competencies, knowledge and capabilities e.g., ESG.

4. **Make human interactions additive to Digital:** focus human support on assisting SMEs with relevant, value adding advice and relationships.

Banks that successfully take these four actions will become more efficient front-to-back, boost salesforce effectiveness, and strengthen precious relationships. It will help them to effectively engage with SMEs, equip them to achieve the next stage in their growth, and to forge closer, more relevant relationships for the long-term.

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