Banking on size

An in-depth look at the banking behaviours of small and mid-sized enterprises, and how they matter to Canada’s banks

www.pwc.com/ca/banking
Small and mid-sized enterprises (SMEs) are a significant contributor to the Canadian economy. According to Statistics Canada, SMEs account for more than 1 million businesses across Canada, employ approximately 5.1 million employees and contribute almost 30% (i.e. approximately $593 billion) to Canada’s gross domestic product (GDP). Given their market size and impact, it’s not surprising that SMEs are a large target group for many service organizations, including Canadian banks.

The challenge with SMEs is that, while they play a significant role in the business world, they are often difficult organizations to target from a marketing or sales perspective. That’s because SMEs are not a homogenous group. There is incredible diversity among small and mid-sized businesses in Canada—from their size and location, to their industry and customer base.

To help Canadian banks understand this dynamic market segment, we conducted a survey on the banking preferences of SMEs across the country—including their perspectives on banking technology, products and services and human interaction.

If you’d like to discuss our findings in more detail, or what they might mean for your banking institution, don’t hesitate to contact us.

John MacKinlay
National Financial Services Consulting & Deals Leader
SMEs have a wide range of banking needs based on their size, location and financing structure. While all SMEs have a business operating account with a bank, their use of other products and services is more diverse. After operating accounts, credit cards are the most commonly used banking service (77%) while commercial mortgages (16%) and group savings programs (24%) are the least used.

The uptake of certain banking products is highly dependent on size. For example, when it comes to business loans, we found that 61% of SMEs with revenues greater than CA$5 million have a business loan, while only 43% of SMEs with less than CA$5 million in revenues have a business loan. Size would also be a factor in the number of small businesses taking part in group savings programs as smaller SMEs may not have the employee base to support such a program.

Retirement and savings plans
We found that 75% of SMEs do not offer a retirement or savings plan to their employees. Of these, over half say it is because of a lack of employee interest. But could this lack of interest really be a lack of knowledge about the benefits of retirement savings?

The survey showed that 61% of SMEs manage all of their banking needs through a single bank. SMEs that work with multiple banks typically do so because of credit card programs or group savings plans. Providing differentiated functions, features and services around these products could entice clients to consolidate into one bank provider.

Figure 1 shows the product penetration for SMEs overall. It’s clear that credit cards are a sticky product for SMEs with their primary bank.
Our survey shows that smaller the business, the higher the likelihood that a business owner will choose to work with the same bank for both their business and personal banking needs. In fact, 71% of SMEs have their personal and business accounts at the same bank—mostly because of convenience. The convenience factor was especially noticeable among business owners in the 65 or over category, where 82% currently have their business and personal accounts at the same financial institution.

The gender of the business owner also appears to play a role in the process of choosing a bank. Female business owners under 45 years of age were the most likely to separate their business and personal banking relationships—with almost half specifying the use of different banks. Female business owners appear to be more conscious of factors beyond convenience when it comes to their banking services. These factors include incentives and the right range of products to meet their needs.

49% of female business owners up to age 45 said they have separate banks for business and personal accounts.
When it comes to banking relationships, 67% of SMEs said they have a specific account manager at their banking institution. The perceived value of these relationships, however, was quite mixed based on the age of the business owner. Business owners under 35 years of age had the most negative impressions about account managers; almost 50% said their account manager only calls when he or she wants to sell something. Among business owners older than 35, only 37% expressed similar concerns.

Interestingly, despite their negative impression of account managers, business owners under 35 years of age are more likely to validate ideas about financial solutions with their account managers (61%, compared to 40% of business owners over 35). In addition, 50% of this group said that they would welcome business advice from their account manager, compared to only 23% of respondents over 35.

When it comes to setting up meetings with their account manager, SMEs are more demand-driven than information-driven. In fact, 80% of business owners said they only meet with their account manager when they need something or when they want to change a product or service they already have.
There’s no doubt that technology has a significant role to play in the success of SMEs and the efficiency of their operations. This use of technology has extended to SMEs’ banking habits. Most SMEs have access to online banking. While 65% of business owners below the age of 44 have downloaded mobile banking apps, the adoption of mobile banking apps amongst older business owners (over the age of 44) is only 46%.

While business owners have access to mobile banking options, over 50% still prefer to go into a branch to make day-to-day transactions (e.g. withdrawals, deposits) and special transactions (e.g. wires, foreign currency exchange, bank drafts). SMEs are more likely to use online and mobile app channels to research banking products or to apply for credit cards, rather than to make actual banking transactions.

Not surprisingly, younger business owners are more likely to use online banking for their day-to-day banking transactions, while older business owners are more likely to use a bank branch.

**Technology on the rise**

**Mobile POS use expanding**

The adoption of mobile point-of-sale (POS) systems has been growing at a rapid rate since the technology was introduced. Of the SMEs that accept debit and credit card payments, 53% have a mobile payment POS device. Cheque or bank draft, however, continues to be the most popular form of payment SMEs accept, followed by cash. This is best explained by the continued lack of a ubiquitous and convenient means of executing lower frequency and higher value payments.

**Banking on size**
Disruptive lending models

In the Canadian marketplace, in addition to crowdfunding models such as Kickstarter and Indiegogo, there are a number of lending models that are beginning to disrupt the traditional lending environment by offering convenient and quick access to funds. These non-traditional lenders use alternate origination models and have different terms and repayment features (e.g. percentage of receivables) from traditional bank loans. Examples of these models include:

**OnDeck**: Offers loans from CA$5,000 to CA$150,000 in as little as two business days to restaurants, retailers, auto repair shops and other local service providers. Demand for financing through the OnDeck platform has surged, with more than CA$350 million deployed since inception. OnDeck uses online data and relatively little input from the business owner. OnDeck’s algorithms assess risk, build credit profiles and make lending decisions quickly.  

**IOU Financial**: Provides loans of up to CA$150,000 to qualified applicants within 24–48 hours. IOU Financial has funded over CA$200 million in small business loans. The online application process takes a few minutes and customers make daily payments directly from their account.  

**Thinking Capital**: Offers loans up to CA$300,000 to small and medium-sized businesses and has worked with over 10,000 Canadian businesses. While delivering loans within three to five business days, Thinking Capital provides real-time feedback and insights to its clients on the state of their business, complemented with immediate actions the client can take to boost their business performance. All these lenders require:

- short online applications;
- collect data online to assess the health of the business;
- use algorithms to help determine loan terms and make faster decisions; and
- deposit money in one to two days.

The payment terms and fees are stated in a transparent manner. They offer simplicity, speed and convenience for small and medium-sized business customers.

Each of the above examples is supported primarily through online and mobile app formats, making it easy for SMEs to apply for funds, access funds and repay funds quickly and conveniently.

Disruptive lending models

It’s important to note that while the use of disruptive lending models is growing, the majority of SMEs continue to borrow primarily through banks and other traditional lenders. Among SMEs, 14% have borrowed from non-bank lenders, while an additional 15% have borrowed from leasing companies. Age appears to be a major factor in the use of non-traditional lending models; 45% of business owners 35 years of age or under have borrowed from a non-bank lender.

In the case of those SMEs that do work with non-bank lenders, private lenders are seen as the most preferred option, followed by trading partners and non-traditional lenders. The primary reasons for going with non-traditional lending models included convenience (e.g. speed, access to capital) and better rates and terms.

45% of business owners 35 years of age or under have borrowed from a non-bank lender.
Banking on the future of SMEs

Small and mid-sized enterprises in Canada are incredibly diverse—and so are their banking needs. That’s why Canadian banks need to focus more on building relationships with SMEs and their business owners, rather than on specific products and services. When it comes to doing business with SMEs in Canada, Canadian banks should:

Be customer-centric: While many business owners believe account managers are only there to sell them products and services, most would welcome the ability to gain insights or bounce ideas off their account manager. Banks should look at how they can better position their account managers to be trusted business advisers who business owners want to speak with on a regular basis. Developing strong relationships with SMEs can enhance customer loyalty and, over time, less-direct upsell opportunities through knowledge and information sharing.

Focus on function: Banks should assess their self-service channels for SMEs and focus on expanding those that are used most frequently (e.g. online, mobile). While current usage suggests self-service channels are being used more for research purposes, the addition of functionality specific to SMEs could help banks transition customers to lower-cost self-service models.

Differentiate product set: Credit cards appear to be the stickiest product for SMEs with their primary bank. Banks need to evaluate their product set and understand bundling capabilities to achieve greater SME adoption of their products.
Evaluate disruptive lending models: Non-traditional lending models are becoming more widely available to SME business owners. As availability increases, so might customer adoption. Banks need to evaluate the benefits of disruptive business models and consider making changes to their own lending products (e.g. credit check criteria, access to funds). By acting now, banks may be able to curb the potential of non-traditional lenders to steal their market share.

Recognize the unique needs of business owners:

• **Millennials:** Millennial business owners are a unique breed. They’re mobile savvy and focused far more on convenience than structure. At the same time, they’re more open to borrowing funds to grow their businesses. Banks need to examine how they can make their products and services more convenient and accessible to this growing group of business owners. Banks also need to develop more segment buckets to address the needs of millennials, who have become accustomed to the high level of personalization offered by the tech industry and are more willing to consider disruptive models than their older peers. Banks should focus on millennial business owners when it comes to increasing awareness and usage of mobile apps and self-service technologies. That’s because millennial business owners could potentially act as technology champions among the SME market segment.

• **Women:** Female business owners have specific needs that not only focus on banking products but also on convenience and incentives. Developing specific products and services that meet their needs could entice them to consolidate their personal and business relationships. For example, banks could create a small business premium credit card with specialized loyalty points and differentiated services to enable stickier relationships with female business owners.

• **65+** Business owners who are 65 or over prefer convenience when it comes to business and personal banking and tend to go with the same bank for both needs. Also, this demographic tends to value their account manager’s advice. Preparing account managers to address specific needs of these business owners and offering convenience can enhance the value of these relationships.
Appendix A: Respondent profile

Number of businesses by region

- 273 (22%)
- 79 (6%)
- 78 (6%)
- 586 (47%)
- 234 (19%)

Number of respondents by owner/operator age

- Up to 35: 60 (5%)
- 35–44: 141 (11%)
- 45–54: 379 (30%)
- 55–64: 455 (36%)
- 65+: 207 (17%)

Number of respondents by industry

- Agriculture, Forestry, Fishing and Hunting
- Mining, Oil and Gas Extraction
- Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transportation and Warehousing
- Information and Cultural Industries
- Finance and Insurance
- Real Estate and Rental and Leasing
- Management of Companies and Enterprises
- Professional Scientific and Technical Services
- Education Services
- Health Care and Social Assistance
- Arts, Entertainment and Recreation
- Accommodation and Food Services
- Other Services
- Other
- Public Administration
- Utilities
- Other

Business size by revenue and number of employees

- Sole Proprietor (0)
- Small (1-9)
- Medium (10-99)
- 100K-250K
- 250K-499K
- 500K-999K
- 1M-5M
- 5M+

Business size (employees)

- 0
- 100
- 200
- 300
- 400
- 500
- 600
- 700
Who to call

John MacKinlay
National Financial Services
Consulting & Deals Leader
416 815 5117
john.mackinlay@ca.pwc.com

Yair Weisblum
Partner, Consulting & Deals
416 814 5892
yair.weisblum@ca.pwc.com

Sasan Parhizgari
Director, Consulting & Deals
416 947 8903
sasan.parhizgari@ca.pwc.com

Kiran Manjunath
Manager, Consulting & Deals
416 814 5857
kiran.manjunath@ca.pwc.com