HOW CAN COMMERCIAL BANKS COMPETE AGAINST THE RISE OF B2B MARKETPLACES?

Bill Gates' oft used quote of people needing banking, but not necessarily banks[1] has started to become more of a reality in the last decade. However, the competitors creating that reality have an older quote at the forefront of their minds: "The customer is king".

Businesses no longer have to source banking services from a traditional commercial bank. New challenger banks have entered the market in the last decade to provide services based on specific use-cases or specific segments. However, more disruptive is the rise of business to business (B2B) marketplaces, where businesses sell goods and services only to each other.

In this article, we share how commercial banks can maintain their relevance and even elevate their customer relationships through embracing the B2B marketplace.

THE WAY BUSINESSES DO BUSINESS IS CHANGING

An interconnected, personalised app-driven experience is driving today's world where the ability to predict and meet customers' needs and a quick and frictionless experience is becoming the predominant way of doing business. B2B marketplaces are becoming increasingly popular – 50 percent of the FTSE100 and 50 percent of the Fortune 100 use Amazon Business as business managers, and underserved SMEs translate their personal experience into their business lives. Pre-pandemic research estimated B2B marketplace commerce to rise from $600 billion in 2019 to $3.6 trillion in 2024 and B2B marketplaces' share of online sales growing significantly to 30 percent[2]. Subsequent research shows that B2B buyers and sellers prefer the new digital reality.[3]

Businesses can access an ecosystem of services they need to run their business through one marketplace account, including financial services - either from the marketplace itself or via firms like Stripe, which embeds financial service provision in their offerings. This shift of B2B activity onto marketplaces gives the providers two key advantages:

1. Deep data-driven insight of customers and their value chains; and
2. Control of the primary customer interface.

Not only do marketplaces know, predict, and personalise their users' preferences and requirements, but they become their 'gateway to the internet' guiding them to suppliers.

1. https://techwireasia.com/2019/11/fintech-companies-prove-gates-point-banking-is-necessary-banks-are-not/
2. https://www.uktech.news/news/new-analysis-shows-online-marketplaces-set-to-exceed- percent247-trillion-by-2024-20190929
3. https://www.forbes.com/sites/forbestechcouncil/2021/05/10/ai-has-come-to-disrupt-b2b-sales-expectations/?sh=7f3b9a157def

SO FAR, SO WHAT?

Commercial banks are still in business, making money, and they are still trusted. However, returns have fallen dramatically during the last decade's ultra-low interest rate environment forcing banks to aggressively cut costs and manage their capital. The return on equity of European banks in 2019 was 5.4 percent, with UK banks at 4.9 percent, compared to the outset of the financial crisis where ROE of European banks was 10.6 percent[4]. Whilst interest rates may increase to mitigate any risk of inflation, we do not expect large jumps, so ROE will still be difficult to increase.

Operating in an ultra-low interest rate environment and being gradually disintermediated, banks risk sleepwalking into the role of a low returning utility with increasing dependence on cost reduction and interest rate increases to grow returns. It could be argued that is how the markets view some banks already if you compare their valuations with those of Stripe, Amazon or Adyen.

The pandemic has accelerated the new digital normal, and B2B marketplaces will continue to grow as businesses feel more comfortable purchasing higher value and more complex services via a marketplace, especially as video and live chat services grow in sophistication and popularity.

Banks need to respond quickly and decisively.

HOW CAN BANKS RESPOND?

The one-size-fits-all product sales no longer works, there must be total customer focus.

> *"To create superior value continuously requires that a seller understand a buyer's entire value chain...as it evolves over time.[5]"*

We believe commercial banks should focus on six key areas:

1. **Targeting propositions at specific use cases or segments.** Banks need to understand their customer segments' entire value chain and develop propositions specifically for them, delivering outstanding customer experience.

2. **The strategy to deliver.** We think the hybrid model is most appropriate for commercial banks.
   a. **Connector** - create their own marketplaces and ecosystem around their customers, connecting them to carefully selected partners who can add value through their value chains. Banks retain the primary customer interface.
   b. **Connectee** - Partner with existing business marketplaces to access a much larger user base reducing cost of acquisition and quickening time to revenues, whilst forgoing the primary interface.
   c. **Hybrid** - Whilst supplying services through an existing B2B marketplace, utilise the data gained to provide further services to new customers and inform more use-case specific service offerings to existing customers.

3. **Building external partnerships.** Identify and source key capabilities from fintech partners to create the most customer-centric propositions. It is not necessary to have all capabilities in-house.

4. https://www.ebf.eu/facts-and-figures/banking-sector-performance/
5. Slater, SF and Narver JC - Market Orientation, Customer Value, and Superior Performance – Business Horizons (1994)

4. **Invest in advanced analytics to monitor and refresh customer requirements.** Customer expectations and requirements change. Investing in deep analytics capability to take advantage of the new data flows enables commercial banks to constantly monitor service performance and maintain, amend, or exit products by quickly and effectively predicting (and meeting) changes to customers' needs.

5. **Seamless and fast onboarding/customer experience.** Average onboarding times are still between 26 and 32 days[6], and an omni-channel experience is still rare. This must be improved if the new customers gained through the hybrid model are going to be open to buying additional services.

6. **Integrating Banking Services into E2E B2B digitised processes.** Develop and integrate your services into businesses E2E transaction flow, so you become a core part of the transaction. You can deepen your business relationship and improve the customer experience by leveraging the range of use cases that innovations such as ISO20022 messaging payload can support e.g., invoices, T&Cs.

Conclusion

This is a new era for business customer experience and banking services. Commercial banks are now operating in a marketplace-driven world, and their position is being eroded. They do not have the resources or time to build their own proprietary marketplaces to compete against existing B2B players, who are not weighed down by the need to maintain legacy infrastructure, and who already have the analytics capability to predict and react to changes in customers' needs.

All is not lost; commercial banks have key strengths: they still make money, have deep customer bases, and are still trusted. However, they need to work out whom they want to serve and whom they want to partner with to deliver market-leading targeted customer propositions. Using the advantages of an existing B2B marketplace, realising the benefits of innovations, utilising advanced analytics, and transforming onboarding will enable commercial banks to win, retain and grow both new and existing customers alike.

6. https://www.finextra.com/blogposting/19268/3-principles-to-successfully-digitise-corporate-onboarding-in-banking

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