



# Knowledge Area Review (KAR 020)

New Business Models for Small to Medium Enterprises – Product Brochure

February 2015



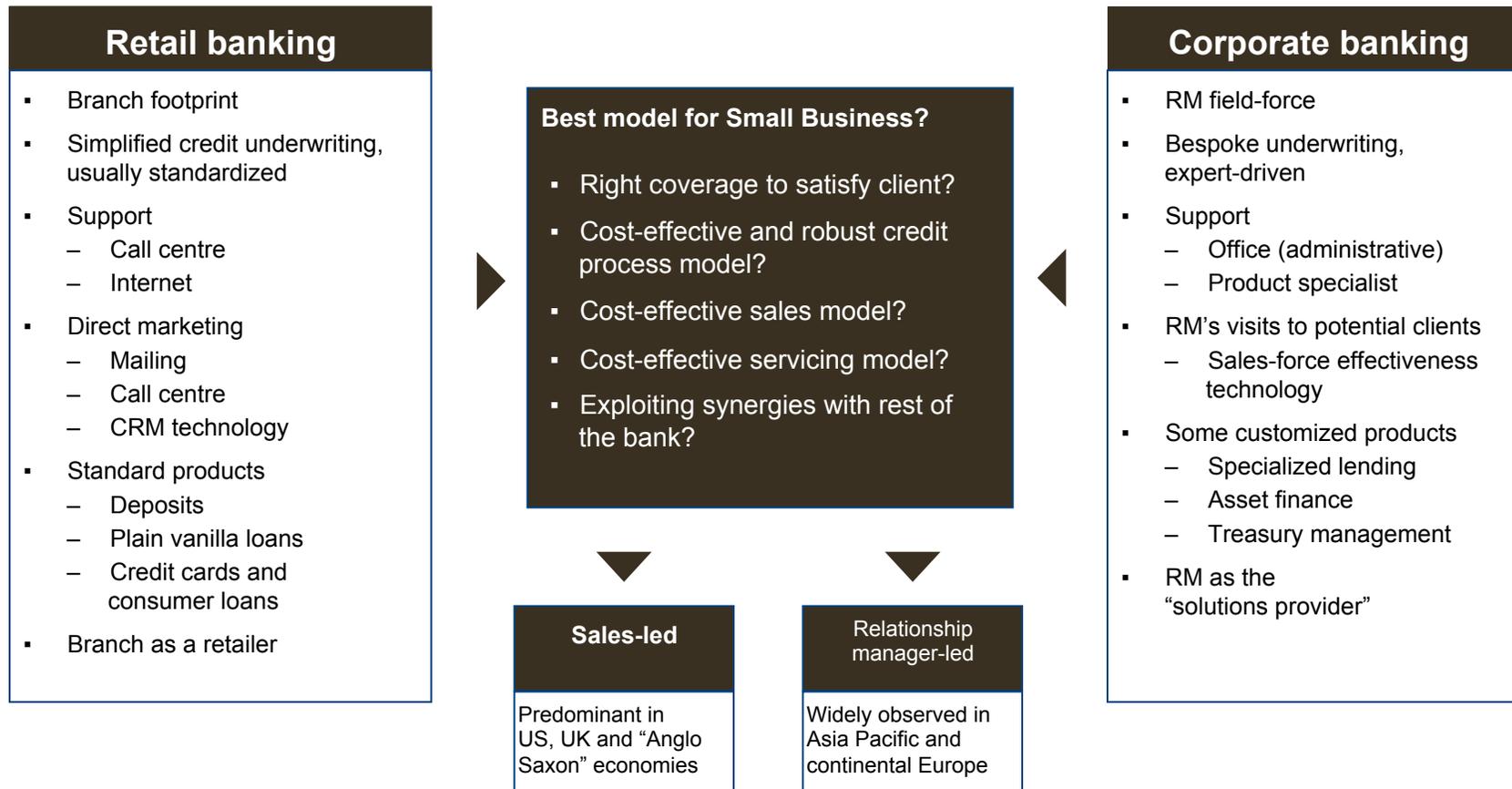
# Table of Contents

Section	Component	Description
1	<b>Executive Summary</b>	Overview of our research and findings
2	<b>New Business Models for SME</b>	A global review of the current or soon-to-be-launched new business models or products planned to service the needs of the Small to Medium Enterprises (SMEs)
1a	<b>Background and Context:</b> What is the market and what existing models are present?	For each different dimension: <ul style="list-style-type: none"> <li>• The key thinking from consulting firms, journals and academia as to what constitutes best practice</li> <li>• Examples of this best practice across different firms and industries.</li> </ul>
1b	<b>Focused Plays:</b> What themes have emerged as potential plays in the SME space?	
1c	<b>Focused Horizontal or Vertical Plays:</b> What plays address the various horizontal and vertical markets?	
1d	<b>Platform or Ecosystem Plays:</b> What plays are emerging across various platforms or evolutions of platforms?	
1e	<b>Evolutionary Drivers:</b> What is driving the evolution of SME business models?	
1f	<b>Future back view:</b> How will models evolve?	
3	<b>Additional Case Studies</b>	Selection of best practices cases around the globe
4	<b>Knowledge Sources</b>	Relevant published materials for further reading

# Operating Model: In the Middle!

Historically, small businesses have fallen between two mature operating models, both of which are well provided for in the market – as a consequence, servicing of this segment has been underdeveloped

## TWO MATURE OPERATING MODELS (e.g. banking)



# Adjacent Services: Enable Personal & Business Goals

Objective: Address other personal and business needs. SMEs tend to have overlapping needs with their Owners. With the growth in small business, single proprietors will use this additional latitude to grow past one employee, and with advances in technology will also leverage the tools available to larger organizations – as with traditional franchising.

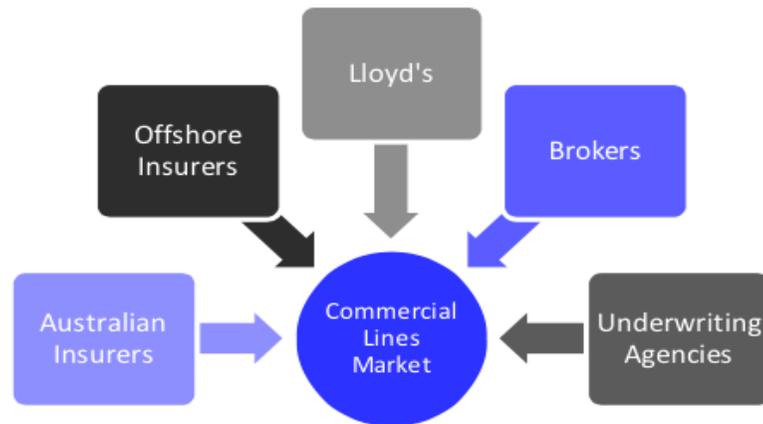
NEED	COMPANY FOCUSED TOOLS/SITES	OWNER/PROPRIETOR FOCUSED TOOLS/SITES
<b>Continuing Education</b>	<ul style="list-style-type: none"> <li>• Lynda.com, BofA SME Online Community</li> </ul>	<ul style="list-style-type: none"> <li>• Flyingsolo</li> </ul>
<b>Fund Raising and Loans</b>	<ul style="list-style-type: none"> <li>• Angel List, Amex Ventures, JumpStart BBVA, Kabbage, Biz2Credit</li> </ul>	<ul style="list-style-type: none"> <li>• Lending Club</li> </ul>
<b>IT</b>	<ul style="list-style-type: none"> <li>• Dropbox, Google Apps, Microsoft Analytics</li> </ul>	<ul style="list-style-type: none"> <li>• Dropbox, Google Apps, Microsoft Analytics</li> </ul>
<b>Insights &amp; Expertise</b>	<ul style="list-style-type: none"> <li>• CBA Daily IQ, Freelancer, ICG</li> </ul>	<ul style="list-style-type: none"> <li>• Moven</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>• BizCover, AssureStart</li> </ul>	<ul style="list-style-type: none"> <li>• Ingenie</li> </ul>
<b>Networking</b>	<ul style="list-style-type: none"> <li>• Hubspot, Hootsuite</li> </ul>	<ul style="list-style-type: none"> <li>• NextDoor</li> </ul>
<b>Payments Services</b>	<ul style="list-style-type: none"> <li>• Square, GoCardless, BitPay)</li> </ul>	<ul style="list-style-type: none"> <li>• Coin</li> </ul>
<b>Shopping &amp; Rewards</b>	<ul style="list-style-type: none"> <li>• EPP, Qantas Aquire</li> </ul>	<ul style="list-style-type: none"> <li>• jet.com, Points</li> </ul>
<b>Transportation</b>	<ul style="list-style-type: none"> <li>• GoGet, LiquidSpace)</li> </ul>	<ul style="list-style-type: none"> <li>• RelayRides, Kayak, AirBnB</li> </ul>

# Role of the Intermediary

Intermediaries can still play a key role, but need to adapt to their customers' changing needs and preferences

## MARKET PARTICIPANTS

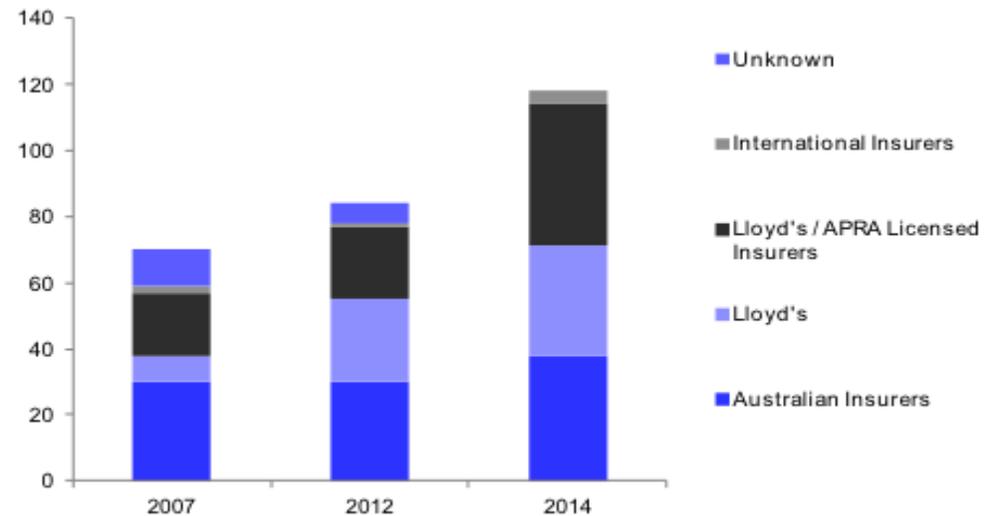
- Commercial lines market in Australia has been flooded with capital in recent years. Capacity is currently plentiful and, in the absence of a market shock, is unlikely to diminish any time soon.
- Local commercial brokers and insurers have seen the benefit in the underwriting agency structure, resulting in M&A activity
- Brokers and insurers, through ownership of agencies, gain the benefit of securing distribution as well as capturing profit at two stages of the distribution chain.



Source: Finity, Deutsche Bank

## UNDERWRITING AGENCY NUMBERS

- Underwriting agencies are specialist and niche players
- Dramatic growth over the last 10 years, mainly due to international players entering the local market
- In recent years brokers and local insurers have bought into the agency market



Source: Estimated from public information (UAC, Lloyd's and insurers' websites)

# Qantas Aquire: Focused Procurement Aggregation Play

## Reward program targeting SMEs



### KEY INSIGHTS

- Aquire is Qantas' business reward program to incentivize SMEs owners in buying from a platform
- The Aquire platform has a wide range of partners, including Westpac, GIO Business Insurance, and Deloitte Private
- Points act as an effective discount on purchases (procurement benefit)
- Aquire Points could be converted to Qantas Points

### COLLATERAL

#### Unlock Qantas Points for your business

- Your business could earn Aquire Points every time you and your travellers fly on eligible Qantas flights\*
- Your business' Aquire points can be converted to Qantas Points at a rate of 1:1 into any Qantas Frequent Flyer account
- Your travellers will still earn Qantas Points and Status Credits~ as they normally would
- Reward yourself or your travellers with flights, flight upgrades, gifts and more...

#### Choose how you book Qantas flights for your business

Whether it be through qantas.com, your travel agent or via our Qantas Contact Centres

Just remember to:

- Add your business' ABN to every booking and;
- Add your traveller's Qantas Frequent Flyer number to every booking as well

View [Qantas Earn Examples](#) to see how your business and your travellers could earn.

ALREADY AN AQUIRE MEMBER? [LOG IN](#)

#### EARN IN SO MANY WAYS



Start being rewarded for the many things your business is already doing by earning Aquire Points on everyday business spend with our partners. In addition, your employees can still earn Qantas Points on top of Aquire Points earned by your business\*.

#### CONVERT TO QANTAS POINTS



Aquire Points can easily be converted to Qantas Points at a rate of 1:1 to any Qantas Frequent Flyer account\*.

#### SAVE AND REDEEM REWARDS



Once Aquire Points are converted to Qantas Points, you can enjoy a range of benefits including flights and upgrades, hotels, shopping in the Qantas Store and more. For more information on redeeming Qantas Points visit: [qantaspoints.com/use-points](http://qantaspoints.com/use-points)\*



# Focused Horizontal & Vertical Markets

In this section, we outline a number of plays in the various horizontal and vertical markets that leverage existing products, etc.. Our research has identified four distinct play types.

## Samples of “Play Types” for horizontal and vertical markets

	Play Types	Description	Examples
A	<b>Product/Service Focused</b>	Play whose offering targets a specific set of products or services (e.g. currency and payments, content and leads management)	    
B	<b>Segment Focused</b>	Play whose offering targets a specific segment of the market with a set of services (e.g. service and advice for small business)	  
C	<b>Market Segment Making</b>	Play whose offering defines the market and sets the standard (e.g. bespoke training for SMEs)	 
D	<b>Value Chain Integration</b>	Play that consolidates services/products across the value chain or parts thereof (e.g. banking information, insight and advice)	



# Business Bank of Texas (BBT): Focused Vertical Play

## Outsourced E2E banking platform and no teller counters

### BBT PRODUCT OFFERING

- Online commercial banking
- Remote deposit
- Receivables management
- Payables management
- Commercial lending
- Certificate of deposit rates.

### QUOTES

*“When we apply for a loan or a line of credit, we have an answer within days instead of weeks”*

Mark Marlow, MKC

*“The savings are so significant with BBT that it’s enough to pay for a staff member”*

John Eagle, VP Controller, AMBA

*“Our customers [serve as] our branches. We don’t have a teller counter... we don’t own anything”*

Ed Lette, CEO and Chairman, BBT

### BBT

- Specialized bank focusing exclusively on banking services for business
- Other than traditional banking services, the bank provides commercial lending options, cash management, and concierge services
- Online, remote banking business model to keep overhead, service rates, and fees low while enabling 24/7 online banking and remote deposit capture
- Relationship officers in Austin, San Antonio and Dallas
- BBT uses Precision Computer Systems' (PCS) Vision **end-to-end core banking platform**, opting for an outsourced implementation
- Good fit within the bank's commitment to keeping overhead as low as possible
- While banking regulations permit 50% of capital to be in nonearning assets, BBT has just 5 % of its capital in nonearning assets
- More than 95 % of the bank's deposits are received via RDC
- Business customers run checks through a tabletop MICR reader/scanner at their own locations, producing check images
- The check images are submitted through a Web-based application and processed through PCS IT systems.

# Corporate Venturing Funds

Relatively expensive and slow way to externalize innovation. Economic justification requires picking winners for investment returns, just like a VC tries to

Dimensions	Reinventure (Westpac)	Telstra Ventures	Optus Innov8 Seed
<b>Funds</b>	\$50M external 10 year fund (Westpac largest investor)	Balance sheet allocation	Balance sheet allocation (\$250M in Singtel Innov8)
<b>Investment Management team</b>	External	Internal	Internal
<b>Investment Committee</b>	Includes 2 senior Westpac executives	Internal	Internal
<b>Criteria additional to normal VC investment criteria</b>	<ul style="list-style-type: none"> <li>Leverages Westpac strengths (more value than just the money)</li> </ul>	<ul style="list-style-type: none"> <li>Fits Telstra strategy</li> <li>Synergies from/in Telstra business units</li> </ul>	<ul style="list-style-type: none"> <li>Strategic interest areas</li> <li>Leverages Optus Singtel strengths</li> </ul>
<b>Stage of investment</b>	Seed – Early Expansion	Early Expansion – Growth (revenue > \$2M)	Seed (up to Growth stage via Singtel Innov8)
<b>Size of investment per venture \$M</b>	0.25 - 5	5 – 50	0.10 - 0.25 (up to 25 via Singtel Innov8)
<b>Number of investees</b>	1 (10 – 15 target for fund)	11	2 Optus Innov8 Seed (40 Singtel Innov8)
	 <small>Radical innovation. Solid returns.</small>		

# Jumpstart: Incubator Platform Play

If SMEs are more efficient at innovation, become efficient at partnering and financing them



## KEY INSIGHTS

Slingshot is a high-tech accelerator that provides seed funding, a dynamic co-working space, and a mentoring program that nurtures skills and relationships to enable entrepreneurs to build a remarkable company. It is where “tenacious founders turn killer ideas into remarkable companies”. The current intake is in partnership with the NRMA and is called Slingshot Jumpstart.

- Early-stage startups who require funding, space, mentorship and, most importantly, have a startup idea that aligns with one of the four NRMA themes
- If candidates apply and are successfully shortlisted, they need to provide with a 4-minute pitch. The shortlist will be judged on the following criteria:
  - Being an Australian citizen or resident
  - The idea aligns to one of the four NRMA themes
  - Applicants can relocate if necessary (inc. co-founders) to attend
  - Applicants are willing to contribute a 10% stake of the business
  - The idea is web-based and digitally-focused with a MVP
  - The idea is scalable, with sizeable market, users and revenue as a goal.

## COLLATERAL

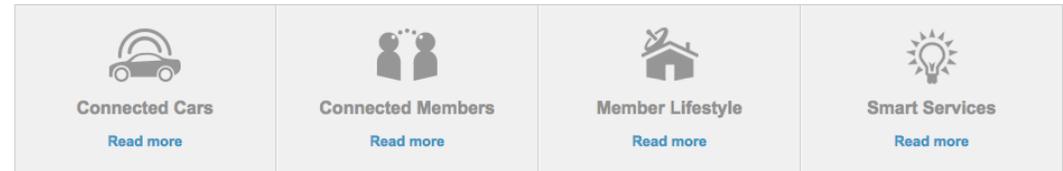

[How it works](#)
[What's happening](#)
[Get involved](#)

### How it works

As one of Australia's largest membership organisations, the NRMA is always looking to help our Members more often and in more ways. To help achieve this aim, we have a proud history of and strong commitment to innovation. As part of our strategic planning, and with full Board support, we've chosen to expand our innovation program to include startups as well as mature scale-ups who can add value to the NRMA Member base. The Slingshot Jumpstart program runs in both Sydney and Newcastle, and startups can choose which city to participate from.

### NRMA Themes

The NRMA has developed a set of specific themes to guide teams on the core needs of our Members. The themes apply to both the Accelerator program (for startups) and the Bridge program (for scale-ups).



# Key Evolutionary Drivers

The future may be hard to predict, but need not be hard to prepare for. Organizations are grappling with the tough new business, investment and regulatory environments that are emerging from the financial crisis.

	Trends	Description
A	<b>Big Data</b>	<ul style="list-style-type: none"> <li>Advances in software and hardware are transforming 'Big Data' into actionable insights</li> <li>Access to integrated real time reporting will deliver better pricing and value to small business customers in the same way that telematics and wearable computers are lowering the cost of general and life insurance</li> </ul>
B	<b>Digitization</b>	<ul style="list-style-type: none"> <li>Mobile, Digital Network and Virtual Models allow ecosystems of small business to compete as large companies. Small- and medium-sized enterprises (SMEs) that adopt advanced mobile and other digitization technologies are the fastest growing</li> <li>B2C and B2B2C platforms allow "store within a store" models to proliferate (e.g. App Store, Etsy, Alibaba, Uber, etc). Virtual teams ('adhocracies') allow flexible best-of-breed partnerships to beat the big guys</li> </ul>
C	<b>Platform Emergence</b>	<ul style="list-style-type: none"> <li>Multi-sided platforms include some of the largest and fastest-growing businesses of the past decade</li> </ul>
D	<b>Regulation</b>	<ul style="list-style-type: none"> <li>Government is skewing its procurement and support to small business, e.g. Lord Young report: explicit links to business schools, government to procure from SMEs, and government to provide capital</li> </ul>
E	<b>Social Implications</b>	<ul style="list-style-type: none"> <li>New and ongoing social trends will shake up traditional business patterns, resulting in an increase in consumer power</li> </ul>
F	<b>Size</b>	<ul style="list-style-type: none"> <li>Not an indicator of success anymore.</li> </ul>

# Five macro impacts

Collectively, the evolving environment is having a profound impact on numerous aspects of the SME environment: how business relationships are built and maintained, how information is created, collected and exchanged, how businesses are organized, and how value is created and shared

1

## De-localisation

- Services that do not involve physical contact with the customer (unlike hairdressing and massage, for instance) can be performed from anywhere
- Face-to-face interaction with customer does not require co-location
- Co-workers need not be co-located
- Companies do not have to have a physical presence to compete in foreign markets

2

## Individualisation

- The rise of the militant consumer: the customer can take control of the brand and can organize easily to corral like-minded consumers
- Customer segments can be much smaller (segments of one person at the limit)
- Products and communications can be highly customized (e.g. loan's features, internet banking site)

3

## Advances in Technology

- Needs will need to be anticipated without human intervention (based on digital info collected by the systems themselves); interactive, adaptive response as customer navigates through a website

4

## 'Gamification'

- 'Gamification' is rapidly emerging as an important mechanism to improve customer engagement

5

## The Change in Career Expectations

- The aging population and their interest in freelance and SMEs will result in an increase in the perceived value and market power of member-based professional associations.

# Changing Vision of the Career (3/4)

As a result, new labor force curation platforms are both lengthening and fattening the tail of the labor supply curve

## PROFESSIONAL CAREER PROFILE (ILLUSTRATIVE)

**CURRENT STATE**



Emergence of new labor force curation platforms and technologies results in enhanced ability to match jobs/assignments to appropriate workforce talent



**FUTURE STATE**





**Internal Consulting Group**

Email [enquiries@internalconsulting.com](mailto:enquiries@internalconsulting.com) or  
visit our website at [www.internalconsulting.com](http://www.internalconsulting.com)