



EXECUTIVE INSIGHTS

Rethinking SMB Strategy: From Fragmented to Focused

- Small and medium-sized businesses (SMBs) face strict lending criteria from community banks and often turn to high-interest alternatives while relying on fragmented, disconnected tools that fail to address core cash flow, payments and operational needs.
- As a result, finance providers must rethink how they serve SMBs by addressing the needs of both the business and the owner and by delivering connected solutions aligned with the SMB life cycle.
- Fintechs and embedded finance providers fill service gaps with fast, data-driven lending, seamless digital experiences and integrated workflows that improve SMB cash flow, operations and platform loyalty.
- Banks and fintechs can better serve SMBs by leveraging their respective strengths — banks' trust and capital and fintechs' speed and digital experience — while delivering solutions that integrate services and align to SMB life cycle needs.

Fragmented and competitive, yet full of potential, SMBs power nearly half the U.S. economy. We all know and patronize SMBs: your neighborhood bakery, the auto shop down the street, a growing online retailer. These businesses often open as scrappy startups, and some still are.

But SMBs remain fractionally served by a combination of banks, fintechs and online platforms. Many owners fund their businesses using personal finances, and some already qualify as high-net-worth individuals involved in other ventures. Larger businesses have access to cash and capital to keep them afloat in turbulent times, but SMBs don't have that luxury — and holistic solutions are scarce. Among finance providers, the real winners will be those that connect the dots between SMBs' unique, urgent needs and deliver the services that add value.

Providers want to serve SMBs more broadly, but it's not clear whether they are truly meeting SMBs' needs. Each player — whether bank, fintech or platform — is built on strengths and must confront current gaps. Understanding both these trade-offs and the conditions that drive SMBs is key to building a defensible and differentiated strategy that will guide finance providers into the future.

Easing SMB pain points

For a bakery whose mixer breaks down or a mechanic facing seasonal fluctuations, a quick loan can mean the difference between staying open and shutting down. Yet community banks' strict lending criteria exclude many SMBs, forcing them to take on high-interest loans, further straining their resources.

SMBs want to partner with financial services providers that understand their business, invest in their success and anticipate their needs. One small-business lender illustrates this with a local bakery client: The lender spotted cash flow trends, including uncovering a predictable 18-month oven repair cycle, and offered proactive financing to prevent costly downtime. It's a perfect example of turning insight into action.

But insight alone isn't enough. SMBs also need help with day-to-day tasks that add up to big impact: managing payments, optimizing cash flow, streamlining operations. These essentials are rarely met by a single, connected solution. SMBs need these services embedded in the tools and platforms they already use, but instead they're left piecing together solutions — each addressing parts of the greater whole. And as SMBs juggle fragmented relationships and systems, finance providers lose wallet share and loyalty opportunities.

Redefining how SMBs are served

SMBs offer a dual opportunity for finance providers prepared to serve both the business and the owner. Though individual and business finances often overlap, the needs of the two remain distinct. Providers that ignore this reality risk leaving money on the table — especially in terms of wealth management. Expanding your outlook to serve the owner of multiple auto dealerships can rival, or even exceed, the value of lending to a single corporate dealer.

Because they have limited safety nets, SMBs feel market shocks more deeply than their larger peers do. Effectively serving this segment requires life cycle awareness, as each stage is characterized by demands for specific resources, capabilities and needs. The stages of SMB growth can include everything from side hustles running on personal accounts to professionally managed businesses with specialized financial systems. The needs of each SMB

become more complex and specialized as the company grows. The right solutions must be delivered at the right time.

Unlike large companies, SMBs evolve rapidly and unpredictably — often faster than providers do — and their financial needs vary widely at each stage of growth, from startup through maturity. To help SMBs survive, their providers must evolve alongside them. Above all, SMBs want to streamline operations, make smarter decisions and lay the foundation for sustainable long-term growth. They need value-added services that grow with them.

The SMB financial services landscape is filled with point solutions. Banks hold deposits. Fintechs deliver fast, data-driven lending. Platforms like Etsy and Shopify have made significant strides with embedded services and distribution. But traditional playbooks won't work in this fragmented market. SMBs want providers that can:

- Deliver value in their specialized area
- Seamlessly connect services across payments, lending, wealth and cash flow
- Align solutions that meet their business's evolving life cycle needs

Banks/fintechs take diverging paths, while embedded finance redraws the battlefield

In a crowded market, finance providers must win the right to serve their customers. Banks cover the basics, but SMBs pursue solutions that go beyond deposits and transactions. Rigid processes and limited personalization have pushed SMBs to turn to faster, more flexible alternatives. Providers must reframe intent from transactional tools to strategic assets that drive SMB value.

Fintechs and software providers have filled service gaps with solutions that address workflow management, payments, reporting and transaction enablement. Rather than looking for new opportunities to address areas of the value chain, SMB providers should now seek to improve their customer orientation, better understand their customers and design sets of services that meet customers' needs.

By digging down into the service needs of SMBs, embedded finance providers have already staked their claim in the SMB market. Fundbox started as an SMB lender and, with 500,000-plus connected SMBs, has transformed into the pioneer of embedded working capital solutions for SMBs. Its rapid approval and funding process, along with revolving lines of credit of up to \$150,000, helps SMBs manage their critical short-term cash flow needs.

Taking a very different path, Stripe Capital evolved from payments provider to SMB platform, extending its money-movement edge into financing. By offering seamless access to capital, free from traditional credit hurdles, it helps SMBs improve cash flow and growth while deepening platform loyalty.

Furthermore, Stripe addresses a fundamental SMB challenge: unifying financial operations. Its platform combines banking features, working-capital financing, real-time reporting and payment products into one seamless experience. By continually layering new services onto its core offering, Stripe has captured a greater share of wallet while strengthening customer loyalty.

Where does the market move from here?

SMBs want unified solutions — not deposits here, payments there and cards elsewhere. To meet that need, finance providers must target the stages where they add the most value and double down on providing it.

L.E.K. Consulting starts by evaluating opportunities across six key dimensions, including the questions SMBs ask when developing a go-to-market strategy:

- 1. Trust.** Trust extends beyond just reliability. Is the provider truly invested in the SMB's success? Will they be willing to go the extra mile when needed?
- 2. Capital access.** This is table stakes. Can the provider deliver at the speed and urgency of the borrower? Is capital affordable?
- 3. Digital experience.** Is the provider's solution seamless, fast and intuitive? Does it elevate the customer experience?
- 4. Embedded relevance.** Does the solution integrate with key business tools that SMBs already use? Is the integration clunky, or is it user-friendly? Does it make life easier for SMBs by eliminating manual and redundant processes?
- 5. Nuanced understanding.** Does the offering provide personalized services based on rich data insights about the business and its pain points? Does the provider serve up the right product at the right time? Does the provider cater to both the entity and the individual?
- 6. Life cycle alignment.** Does the tool continue to deliver relevant insights as the SMB matures? Do the products align with the evolution and life cycles of the SMB?

Challengers are winning SMBs' business by delivering more integrated, intuitive and real-time experiences. By understanding and addressing the Achilles' heels of competitors, they can address the critical needs that they are distinctly positioned to fulfill. In the best-case scenario, they can build a competitive moat, making it difficult for competitors to challenge their turf.

How banks can win

Banks don't need to replicate the services of fintechs in order to compete. By embedding value across the SMB life cycle, they can reclaim lost ground and define their role in the evolving ecosystem. In the short term, banks should focus on defending their core by:

- **Leveraging strong relationships.** Where trust is already established with current customers, inform them of the bank's options that can help with their small-business needs.
- **Digitizing cautiously but deliberately.** Offer basic banking products and introduce light digital offerings — mobile banking, bill pay, etc.
- **Pursuing incremental wins without disrupting current models.** Rather than rebuilding from scratch, banks should utilize some contextual intelligence for product offerings — but the sophistication of products should remain relatively the same.
- **Evaluating partnership and increased capability opportunities.** To encourage innovation and scale impact, banks should seek fintech partners that can accelerate their time to market while leveraging their core strengths of trust, capital and compliance.

By owning the middle — where SMBs outgrow one-size-fits-all solutions but still need guidance — banks can stay relevant, defend their core and build sustainable advantage.

How fintechs can win

Fintechs have long recognized that SMB banking requires more than just products. Success depends on delivering seamless experiences and embedding data-driven solutions tailored to SMBs' needs.

Though they have advantages in speed, flexibility, SMB insight and digital experience, fintechs still trail banks in trust and capital access. To maintain momentum, they should continue leveraging their ability to serve SMBs across growth stages while meeting both business and personal needs.

For fintechs and digital banks, it's about staying the course and defending competitive advantages. Here's how:

- **Double down on speed and simplicity.** SMBs value frictionless experiences.
- **Build trust.** Transparency and strong customer support are a winning combination among SMBs.
- **Embed lending into the ecosystems.** Start by improving on offerings that SMBs already use — from payroll and invoicing to enterprise resource planning tools.

Focus is the path to winning SMBs' loyalty

Winning in the SMB market takes strategy, not brute force. While banks hold the relationships and capital, fintechs counter with speed and agility. Growth is real, but winning here requires fresh delivery models and strategic investment.

The path to growth in the SMB market isn't about offering more; it's about providing what matters most to SMBs at the right time. Banks, fintechs and embedded players must evolve with SMBs, adapt to their needs, anticipate their next steps and deliver value across the life cycle.

Winning this market won't happen overnight, but those that connect the dots can unlock immense potential. Whoever simplifies and integrates will own the SMB market.

For insights on how your organization can expand your SMB market reach, please **contact us**.

About the Author



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Aaron Byrne is a Partner in L.E.K. Consulting's San Francisco office, where he spearheads the firm's Financial Services practice. Aaron's passion for revolutionizing the financial services industry is evident through his contributions to innovative business models and strategies. He has made significant impacts through his publications and expert commentary on myriad topics, including ecosystems, embedded finance, generative AI, digitization, digital assets, and M&A and partnerships.

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