

Rewriting the Commercial Banking Playbook:

Landing and Expanding Commercial Relationships Through Digital Banking

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Key Strategic Findings

In today's rapidly evolving financial landscape, commercial banking leaders must reimagine digital strategies to meet increasingly sophisticated customer expectations.

The Relationship Banking Paradox

- While relationship banking remains a core strength, it's increasingly insufficient as a standalone value proposition
- Customer loyalty often resides with individual bankers rather than with the institution
- Treasury Management is emerging as a more consistent, high-touch engagement point than traditional lending

Digital Displacement Risk

- Fintech competitors deliver 60-75% more functionality than typical community banks
- Square, Amex, Brex, Mercury and others are systematically expanding from underserved segments into core banking territory
- These platforms succeed by solving workflows, not by selling products

The Integration Imperative

- Commercial clients increasingly evaluate banking through an operational efficiency lens rather than rate competition
- Current digital offerings meet only 25-40% of client workflow needs
- Customers value partners who can reduce friction in financial operations through integrated solutions

The New Commercial Banking Playbook

The new playbook isn't actually about technology - it's about solving problems. Square didn't succeed because it built a better payment processor; it succeeded because it made it dead simple for small businesses to get paid. Ramp isn't winning because it built a better corporate card; it's winning because it made expense management painless.

The old playbook is banks playing checkers while asymmetric competitors are playing three-dimensional chess. And they're doing it with the banks' own pieces. These include:



	Old Playbook	New Playbook
Strategy	Product-centered: "We're a Bank"	Customer-centered: We Solve Problems"
Entry Point	Credit-led relationships	Customer workflow integration
Value Creation	Individual relationship manager	Institutional knowledge + technology + individual relationships
Expansion	Cross-selling more products	Enabling additional customer workflows
Technology	Digital tools that mirror paper processes	Embedded functionality in business systems

How Asymmetric Competitors are Winning

The strategy employed by Square, Brex, Mercury and others follows a consistent pattern.

Square began with a simple card reader but now offers a comprehensive financial ecosystem including merchant services, payroll, business banking, and more.

Mercury is the banking app of choice for 100,000+ small businesses and in 2024 they launched a personal banking app that includes a savings account with a 4.00% APY as of this writing in late February 2025.



ENTRY STRATEGY

Begin with a single high-utility function (payments processing, expense management, etc.)



EXPANSION STRATEGY

Systematically add adjacent functionalities based on customer workflows



BANKING INTEGRATION

Introduce banking products within the context of existing workflows



VALUE PROPOSITION

Operational efficiency rather than financial products in isolation

Understanding the “Small Business Operating System” (SBOS) Strategy

The Small Business Operating System (SBOS) concept, articulated by Alex Johnson of Fintech Takes and validated through our research, describes how businesses increasingly rely on integrated software platforms to manage their daily operations.

These systems handle critical functions including:

- Accounting and bookkeeping
- Invoicing and accounts receivable
- Payroll and benefits management
- Expense management and accounts payable
- Inventory management
- Point of sale (POS) transactions
- Time tracking and scheduling
- Customer relationship management

The key insight is that banks are increasingly becoming just one component within these broader operating systems rather than the central hub for business financial management.

Two Types of SBOS Providers



Industry-Agnostic Platforms

- Examples: QuickBooks (Intuit), Square, Shopify
- Broad functionality applicable across different business types
- Advantages: Scale, brand recognition, extensive integration networks
- Challenge for banks: These platforms are actively expanding into banking services



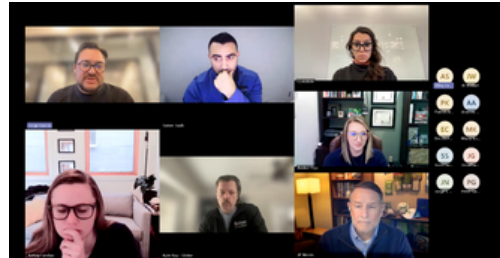
Vertical-Specific Platforms

- Examples: Toast (restaurants), Brightwheel (childcare), ServiceTitan (field services)
- Deep industry-specific functionality with tailored workflows
- Advantages: Superior user experience for specific industries, higher retention
- Opportunity for banks: Vertical-specific banking integrations remain underdeveloped

Voice of the Banker

Our joint discovery discussions with member banks revealed several critical insights.

- **Product vs. Process Tension:** Most banks are still organized around product silos (with a noted tendency towards credit) rather than customer workflows that arise from their Jobs to be Done (JTBD)
- **Treasury as Relationship Driver:** In some cases Treasury Management teams are increasingly leading commercial prospecting, with credit as a secondary consideration because "Not every customer needs a loan, but every customer has a need to hold and move money".



"Not every customer needs a loan, but every customer has a need to hold and move money".

-CFO, \$3.8B bank

- **Fee Optimization Challenges:** Banks struggle to maintain fee structures when Treasury and Lending teams operate independently. Each side tends to discount the other in order to maximize their own outcomes.
- **Integration Gap:** Banks recognize the need to integrate with "business operating systems", such as Quickbooks, Square, and the like, but lack the technical capability today.

The Future is Now

68%

of small businesses now use at least one non-bank financial service alongside their primary bank relationship, with 23% reporting they plan to shift more of their financial activity to these providers in the next 12 months.¹

-12-18%

Community banks report seeing a 12-18% annual migration of operational deposits to fintech providers offering integrated payment and expense management solutions, representing approximately \$2.7M in lost deposit value per \$100M in commercial deposits.²

Which of the following are issues or pain points for the accounting functions in your company?³

	Book-keeping	Invoicing	Expense Tracking	Financial Reporting	Income Taxes
It's manual and labor intensive	57%	59%	58%	56%	49%
It costs too much	43%	38%	35%	39%	43%
It's untimely (always or usually behind)	38%	42%	35%	37%	30%

Sources:

¹ Federal Reserve Small Business Credit Survey, 2024

² Cornerstone Advisors "What's Going On In Banking 2025" report

³ Cornerstone Advisors survey of 750 small business owners and executives, Q4 2023

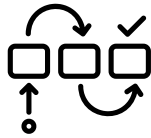
Embedded Banking as the future State

The emerging model positions banking services as components embedded within these operating systems rather than standalone offerings.

Key elements include:



Distribution Shift:
Banking services accessed through business software, not bank channels



Workflow-Centric Design: Banking functionality mapped to specific business processes



Data Advantage: Business operating data leveraged for underwriting and targeting



User Experience: Self-service, immediate fulfillment, minimal documentation

These shifts do not eliminate the need for banks, but fundamentally changes their role from direct providers to infrastructure partners and capacity providers.

Creating a Competitive Response

For community banks to thrive in this environment, several approaches are viable:

Vertical Focus Strategy:

- Select specific industries for deep specialization (e.g., law firms, medical practices)
- Develop tailored product bundles addressing industry-specific challenges
- Build integration capabilities with the dominant SBOS platforms in those verticals
- Example: IOLTA account offerings for law firms with integrated case management

Partnership Model:

- Establish strategic relationships with SBOS providers
- Offer banking-as-a-service to embedded applications
- Provide regulatory compliance expertise and balance sheet capacity
- Maintain customer relationships through enhanced integration capabilities

Technology Modernization:

- Create middleware layers to overcome core system limitations
- Build or acquire API infrastructure for business software integration
- Develop modern onboarding processes that match fintech experiences
- Focus on data connectivity to enhance customer intelligence

The most successful strategy will likely combine elements of all three approaches, applied with disciplined focus rather than attempting to compete across all fronts simultaneously.

Critical Questions for Executive Leadership

The window for repositioning is narrowing. Banks that fail to enhance their commercial digital capabilities risk significant franchise value deterioration over the next 24-36 months.

1

"Your best commercial client just got approached by Mercury or Brex. What compelling reason can you give them to stay with you that doesn't include the words 'relationship' or 'local'?"

3

"As fintech competitors move up-market from micro-businesses into your core commercial segments, what data from your existing customers are you not leveraging that could help you anticipate and prevent attrition?"

2

"What sacred cow in your current business banking approach are you willing to sacrifice to ensure you're still relevant to businesses five years from now?"

4

"If we pooled 5% of what each of us is spending individually on commercial banking technology, what capability could we build together that none of us could afford alone?"

The future of banking isn't about being the best bank- it's about being the banking layer in the best business experience.

Transform now or risk becoming irrelevant to the next generation of commercial customers.

Next Steps

This customer discovery is a continuous work in progress. Here are some next steps to consider to respond to the threats and opportunities.

01

Operational Assessment

- Evaluate the balance between credit-centricity and workflow enablement from the customers' perspective
- Map customer journeys from acquisition through expansion
- Identify processes that create friction in commercial relationships

02

Strategic Repositioning

- Develop vertical-specific solutions for high-value segments
- Create bundled offerings that address industry-specific pain points
- Reorganize around customer needs rather than product lines

03

Technology Investment

- Consider infrastructure development for business software integration
- Consider middleware capabilities to overcome core system limitations
- Develop embedded banking services that live within customer workflows

04

Collaborative Opportunities

- Pool resources for shared product and/or infrastructure development
- Create joint venture opportunities for vertical-specific solutions
- Leverage Alloy Labs resources, including the Concept Lab to look at potential partners to add needed capabilities

Acknowledgements

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This report represents the views of Alloy Labs and not necessarily those of individual participants or their financial institutions.



About Alloy Labs

Alloy Labs is an ecosystem of community and mid-size banks working together to develop insights that drive partnerships, product development, and strategic investments to better serve evolving customer needs and win in a rapidly changing world.



The Alloy Labs Alliance

Member-Driven Bank Collaboration

A consortium of banks from across the country with combined assets totaling \$470+, giving members the insights and resources of a top 10 Bank



The Alloy Alchemist Fund

Strategy-Led Corporate Venture Capital

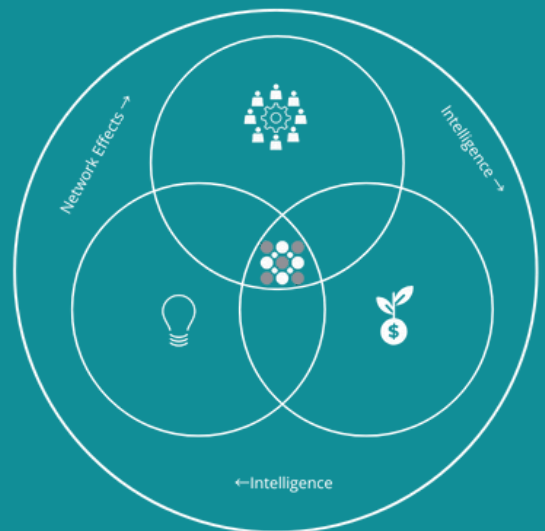
Giving banks inside access and equity upside to game-changing fintech solutions who are reinventing, not just replumbing the industry



The Alloy Labs Institute

Industry-Leading Tools and Frameworks

Creating and sharing best practices and strategies to help leaders counter disruption risks, unlock new sources of growth and unbreak the bank



Download the entire 48-page live briefing deck and schedule a private briefing for your team:

AlloyLabs.com/briefing