



ALBERTA ADVISORY  
ASSURED EXECUTION

Research Paper

## **PART 2 – FINTECH OPERATING MODEL MANTRAS**



**55% of failed startups raised \$1M or less, and almost 70% died having raised less than \$5M overall\***

\*Source: [www.cbinsights.com](http://www.cbinsights.com)

The FINTECH corporate scene is raging with angel funding, mergers, acquisitions and muffled dissolutions. The FINTECH Operating Models are continuously morphing and adapting in response to the changing conditions of venture funding, high tech resource availability, capital burn rate, competitive moves, customer feedback, technology developments and market uptake.

Despite that, the FINTECH operating models hold on dearly to few operating mantras and idiosyncrasies that maximize their chances of survival and growth.

In this research paper, we attempt to crack the nut on few FINTECH companies and reveal these idiosyncrasies.



## MANTRA 1 – CONSECRATE ALL TO A SPECIFIC MARKET OPPORTUNITY

Customers value  
“Care” and  
“Recognition” more  
than  
“Convenience”  
when  
choosing a  
financial  
services  
provider\*

\*Source: Royal Bank Of Canada Customer Survey



Instead of spreading their capital and resources too thin, FINTECHs dedicate to a *specific customer* segment or a *specific product*. This devotion allows them to obtain a unique, often unparalleled understanding of the target customers’ immediate requirements, lifestyles, motives, preferences and emotional triggers. Equipped with such understanding, FINTECHs craft their value chain with laser precision to deliver the right solution, at the right price and set it apart from other market players.

The aforementioned “Unique Customer Understanding” and “Custom Crafted Value Chain” should by no means lead you to expect complexity, over standardization or even latency. Rather, the opposite! The FINTECHs operating models are simple focusing on what matters to the end client and the market opportunity at hand.

Figure 1 overleaf provides two examples of such devotion. *Osper* provides highly specialized card-based electronic payment services for kids, while *SnapFinancial* focuses on extending loans and receivables collections for home improvement projects.



Figure 1: “Mantra #1 Consecrate All To A Specific Market Opportunity”

 		
Who To Focus On?	Families with young kids eager to educate their kids on budgeting, effective spending.	Home Improvement clients and contractors.
What They Need?	<ul style="list-style-type: none"><li>• Curb spending to daily, weekly and monthly allowance.</li><li>• Understand spending behavior (e.g. food, clothes, entertainment, etc.).</li><li>• Encourage savings</li><li>• Block foolish or harmful purchases.</li></ul>	<ul style="list-style-type: none"><li>• Access credit quickly to initiate the project or buy equipment.</li><li>• Optimize monthly payments to fit budget.</li><li>• Collect / Initiate payments in the field.</li></ul>
How To Meet Need?	Prepaid card issued to minor with supported phone app for monitoring and replenishment.	Specialized online financing and payment platform with pricing and underwriting rules customized to home improvement.

## MANTRA 2 – REUSE EXISTING CAPABILITIES IN THE MARKET

**65% of the largest banks and insurance companies signed with Microsoft to move applications to the CLOUD on the heels of the FINTECH growth\***

FINTECHs loath developing business or technology capabilities that do not tie directly to their clients’ needs or their competitive differentiators. Hence, the reuse of business capabilities available at the web – or clouds – becomes their immutable dogma. By doing so FINTECHs ensure a shorter time-to-market, a lesser set-up cost, flexible future economics and a blue-ocean market.

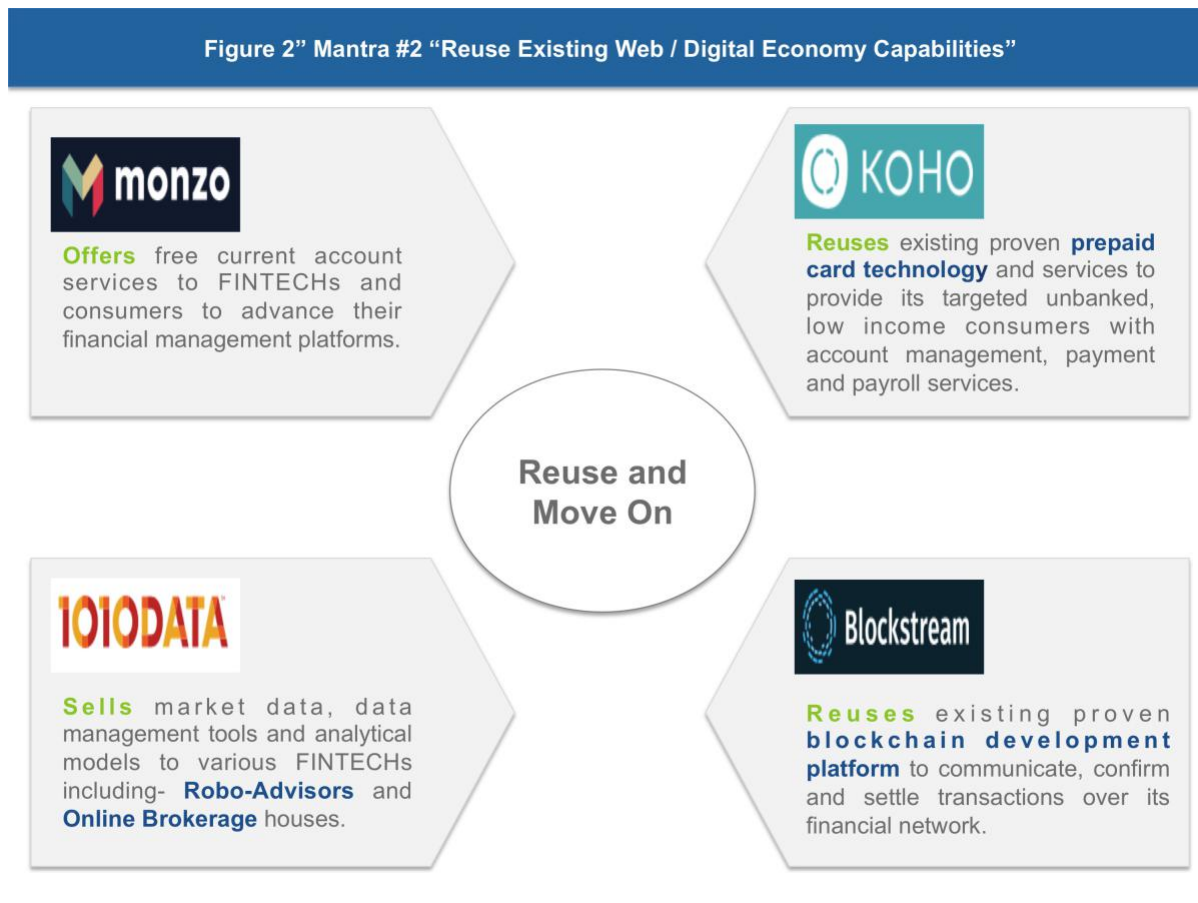
In Part 1 of our FINTECH research series, we referred to FINTECHs making a living of selling specialized business capabilities (e.g. credit risk models, market risk models, customer engagement centers, marketing tools) for banks and non-banks.

Here we tackle the other side of this burgeoning digital ecosystem where FINTECHs weave these ready-to-use specialized business capabilities to develop new operating models to address existing needs in a unique way.

\* Source: Bloomberg 2015



Figure 2 below provides a collection of examples on reuse of digital business capabilities.



## MANTRA 3 – MASTER DIGITAL MARKETING, SALES & DISTRIBUTION

**Digital Marketing tools of KissMetrics, Adlyser, Majestic and SEM are among the most popular in FINTECHs**

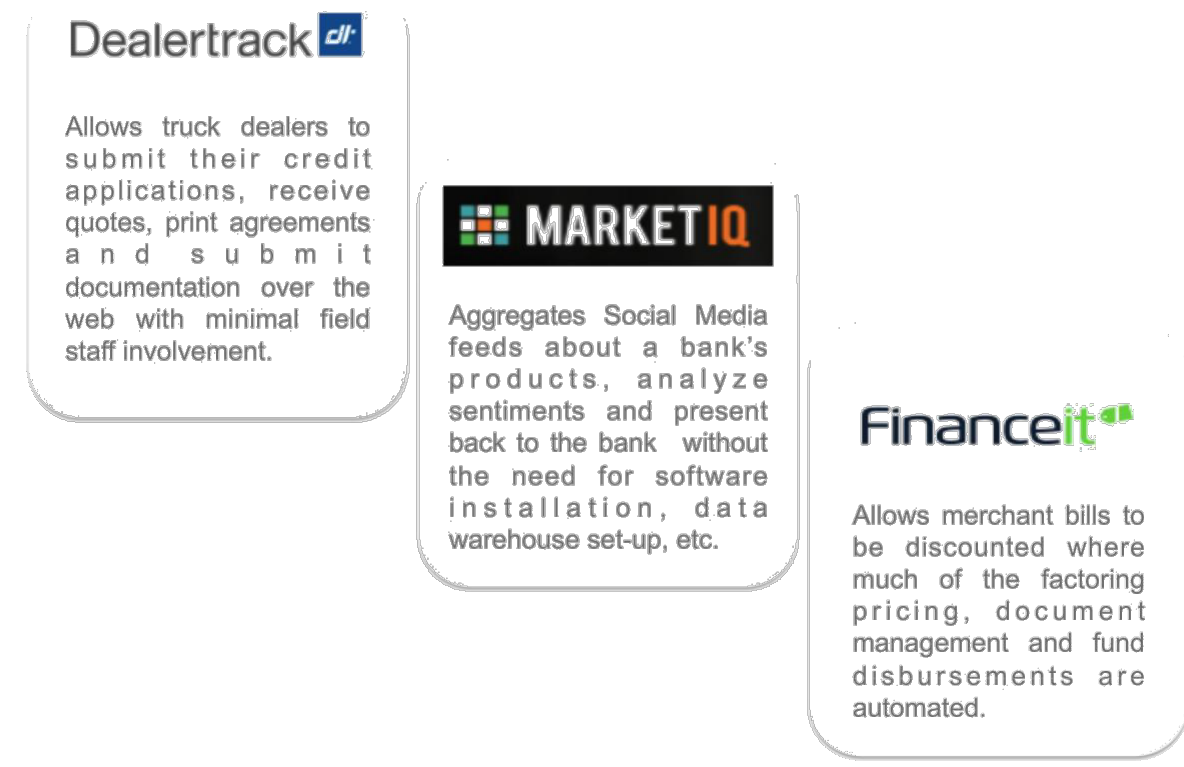
FINTECHs build their operating models to be comfortably hosted and managed within the web, private/public clouds and digital channels. They have no sentimental and operational attachment to brick-and-mortar branches, billboard / newspaper marketing, field task force, paper-based transaction documentation, large offices and private IT infrastructure.

“Self Services” and “Automation” are the foundation of their operating models. Customers are acquired, educated and emboldened to trust and engage in digital interactions.

Figure 3 below provides examples of the “Self-Service” and “Automation” mind set.



Figure 3: Mantra #3 “Master Digital Marketing, Sales & Distribution”



## MANTRA 4 – MAXIMIZE VALUE OF HELD DATA

**Truly insights-driven businesses will steal \$1.2 trillion per annum from their less-informed peers by 2020\***

\*Source: Forrester Predictions 2017

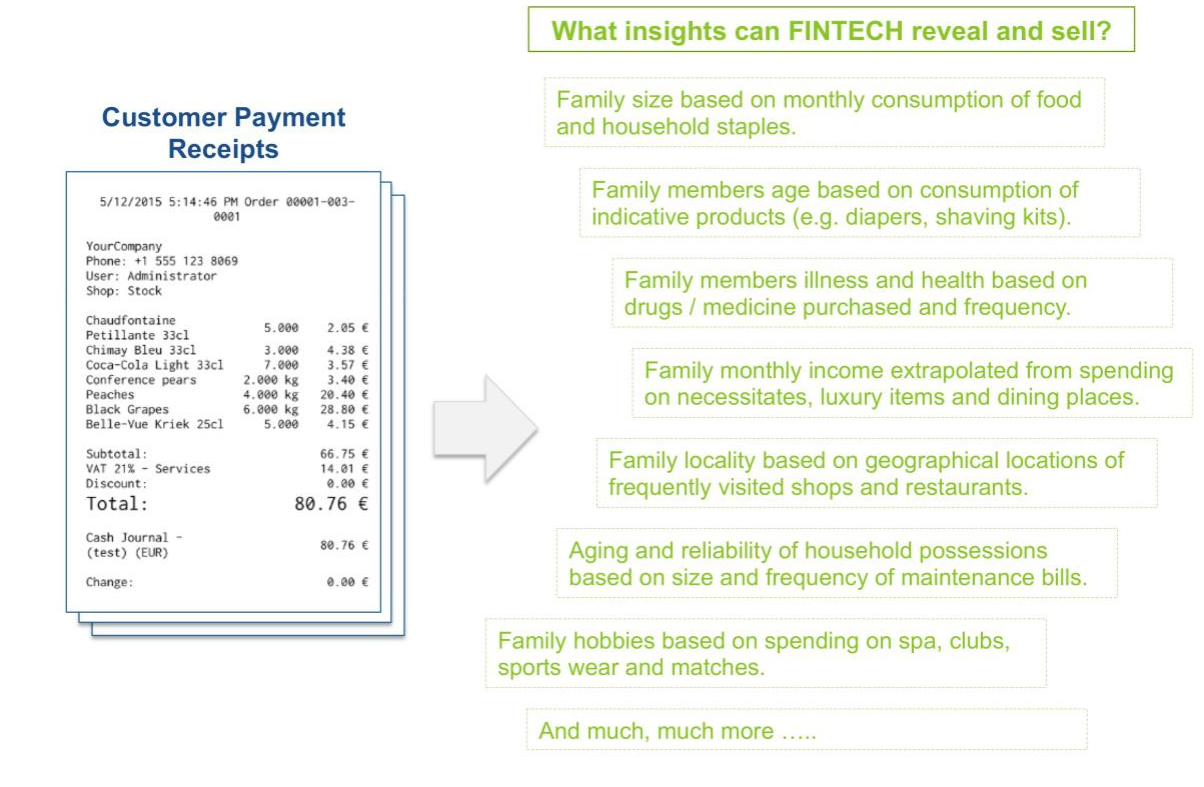
FINTECHs are *fanatics about their business data*. The dogma of any FINTECH is that data is a *true corporate asset* that generates unlimited financial returns. Once properly and systemically analyzed and explored, data generates valuable business insights that can be sold or used to improve existing services. Such Business Data Insights include- upsell/cross-sell leads, process automation opportunities, revenue leakage threats, product pricing hikes and untapped geographies.

Nothing manifests the global industry struggle over consumer / business data; more than “Electronic Payments”. Mega players (e.g. Google Wallet, Apple Pay, PayPal) and new entrants (e.g. Square, Koho, Atom Bank) are racing towards capturing the lion share of transactional data, rather than, sheer processing fees. Customer purchases and payment transaction deliver a



flood of insights. Figure 4 lists the slew of insights generated by analyzing simple customer payment receipts.

Figure 4: “Mantra #4 Maximize Value Of Data”



## MANTRA 5 – EVOLVE VIGOROUSLY

FINTECHs *evolve* products *passionately* and vigorously based on customers direct engagement (i.e. Mantra #1), emergence of new digital capabilities over the web (i.e. Mantra #2), better alignment of digital marketing, sales and distribution processes (i.e. Mantra #3) and transactional / social data insights (i.e. Mantra #4).

You have the right to argue that continuous improvement is a no brainer for any business and not just FINTECHs. We agree but FINTECHs master this art and exhibit a far more resilient organization structure, shorter and more economic change cycle and richer customer insights.

FINTECH organization structures are typically flat, consisting of cross-functional teams empowered to define all product



attributes. Also, the change cycles capitalize on partners and go-to-market pilots, rather than, lengthy surveys and complex lab tests. Last but not least, the customer insights are generated on a regular basis and much of product behavior (e.g. pricing, maturing, discounts) adapts continuously and automatically based on these insights. ■





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End of Report