Article:
Innovative corporate services digitally enabled
Part 1: Innovative corporate services digitally enabled

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Part 2: Innovative corporate services digitally enabled for internationalization

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Abstract
This paper, structured in two parts, delves into the future road map of digitally enabled banking services in support of Italian companies that are moving into new markets. In the first part, EY Italy explains the reasons why this research project was undertaken in collaboration with Politecnico di Milano and describes the best-in-class digital business services offered by the main Italian and European global banking groups. The research focuses on the internationalization process and the best practices of business products and services offered by the main global marketplace platforms, as leading business and technology innovators. In the second part, Politecnico di Milano presents the main research findings about the needs of Italian companies that undertake internationalization processes; the potential use of digital enablers to innovate the business services portfolio and generate new revenue sources for the banks; and the best practices on the “digitally enabled” processes, products and services for companies.
Part 1: Innovative corporate services digitally enabled
Part 2: Innovative corporate services digitally enabled for internationalization

Part 1: Innovative corporate services digitally enabled (contributed by EY Italy)
Since the 2007 financial crisis, banks’ business models have been put under extreme strain. The steady increase in nonperforming loans (NPLs) combined with a low interest level environment has prompted banks to look for non-interest related revenue streams, like fees and commissions for value added services to offset decreasing lending revenues.

The revolution in consumers’ selection and purchasing behaviors, brought about by their ubiquitous access to information and their greater focus on value-for-money, has forced organizations across all industries along an evolutionary path aimed at digitalizing their sales processes and omni-channel customer engagement. Banks focused their digital transformation efforts on the innovation of their relational models, sales processes and offering for retail customers, leveraging their strong relationship with these customers and the large availability of customer data, even going as far as proposing non-banking products. For instance, it is now quite common for banks to sell life and property and casualty insurance or real estate advisory and, in some cases, high-tech, wellness and lifestyle products.

The drive to find new revenue pools from extended or non-banking services for retail customers has not been mirrored by the same innovation effort on the business clients side: the offering for this segment is still largely traditional, aside from some timid digital evolution on a few processes. The introduction of new products and services – digitally enabled – for business customers is therefore a potentially large and still unexplored source of profitability.

In this context, EY analyzed a wide sample of organizations’ value chains and identified the distribution processes and the search for new markets and customers as two fundamental needs across all industries. To further expand the body of knowledge on these issues, EY engaged the Politecnico di Milano (one of Italy’s leading universities, with a privileged view on market and technology innovation due to its observatories and research groups) to conduct a benchmark study on:

- The state of the art and best practices on digital business services offered by the main Italian and global banking groups, with a particular focus on the internationalization process
The best practices on business products and service offered by the main global marketplace platforms, as leading business and technology innovators

The key finding of the research showed that – in their business customers’ eyes – banks are a potential partner for growth: not only providers of financial and transactional services, but trusted advisors on business development and information providers, valuation and operations experts for the internationalization of their business. The opportunity for banks, here, is to leverage digital enablers to develop a brand new business offering, taking a leading role in the internationalization and market positioning processes of their more internationally prone business customers (Figure 1).

**Figure 1: The right positioning along corporate customers distribution processes opens new possibilities for banks to offer new services both to their customers and to their customers’ customers**
This role will make it possible for banks to:

- Reach new markets and customers for their core products and services
- Create a virtual space where middleman and customers can find these products and services and enable digital market making, selling and transactional processes
- Foster the link between banking services and the commercial services offered through the marketplace and enable new banking services
- Help with the acquisition of new prospect customers participating in the marketplace

The coming years will see a turning point for banks, with new business models and a new positioning along the economic development process: an increasing demand for decision-making and advisory related services is to be expected. This kind of service, born for corporate and mid-corporate clients, could, if standardized and industrialized, also be offered to small- and medium-sized businesses, and this will be possible only by leveraging digital tools.

**Part 2: Innovative corporate services digitally enabled for internationalization**

*(contributed by Politecnico di Milano)*

The current economic environment is characterized by a difficult upturn after the recent financial crisis in Italy and in Europe, a sustained growth pace in emerging markets and an acceleration of the U.S. economy, which emerged from the crisis earlier than other countries thanks to its unconventional monetary activities. Thus, it seems increasingly clear that exports could represent the lifeline for many Italian and European business companies, seeking new markets for the sale of their products and services in both emerging countries and in those advanced countries already out of the crisis, such as the U.S.

As Figure 2 shows, in 2013 the contribution of exports to the Italian GDP was positive (30%), but unexploited development opportunities were still high in terms of internationalization. Compared with Japan and the U.S., Italy has a high degree of international openness; furthermore, development opportunities are considerably lower than Germany. After contracting in 2009, the level of international opening of Italy points to the growth rates being always positive.
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Figure 2: Italian market data: impact of exports on GDP and the degree of international openness

Sources: Politecnico di Milano analysis of world bank data and ISTAT (2014)
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Figure 3: Italian market data: exported product categories and geographic area

Exports by economic activity:
- Pharmaceuticals: +14.7%
- Vehicles: -34.7%
- Petroleum and polished products: -1.6%
- Machines for general use: +23.0%
- Vehicles accessories: +6.8%
- Other furniture: +8.3%
- Machines for specific use: +12.9%
- Footwear: +9.1%
- Other clothing: -34.7%
- Engines and turbines: +1.6%
- Petroleum and polished products: -2.2%
- Machines for general use: +6.8%
- Vehicles accessories: +8.3%
- Other furniture: +12.9%
- Machines for specific use: +9.1%

Exports by geographic areas:
- Italy: 397,996
- North West: 160,007
- North East: 126,371
- Center: 66,196
- South: 26,312
- Islands: 14,298

Sources: ISTAT
In 2014, the economic activities that experienced a significant increase in terms of exports are those related to the pharmaceuticals, the mechanical and the fashion industries. The regions that contribute mostly to national exports were Marche, Emilia Romagna, Piedmont, Veneto and Lombardy, with the dynamic oriented mainly toward E.U. markets (Figure 3).

On the basis of these findings, this research aims to identify the future road map of digitally enabled banking services in supporting Italian companies that are moving into new markets. 

Thus far, the services that banks provide their corporate clients have focused on a few areas – transactional services (collection and payment tools, cash management, billing services, etc.); financing, leasing and factoring; internationalization services (trade finance, international cash pooling, market scouting, etc.); investment banking services (bonds placement, advisory, mergers and acquisitions, structured finance, etc.); and capital markets services (trading services, financial risk management, etc.). The digital component of these services represents only a marginal element, limited to e-banking tools and to some collection, payment and document management (e.g., invoices) services.

The development of new internationalization services would allow banks to support the growth of their clients, to facilitate the opening of new markets for the banks’ core products and services, to enable digital processes of supply and demand matching, of sales management and of transactions processing, and to enable the extension of banks’ business proposals to new and innovative services.

The first phase of the research project focused on analyzing the needs of Italian companies that undertake internationalization processes; the second phase focused on the potential use of digital enablers to innovate the business services portfolio and generate new revenue sources for the banks. The third and last phase of the research proposed to identify the “digitally enabled” processes, products and services best practices for companies.
This article is organized as follows: section 1 reports on the needs of the Italian companies that decide to expand internationally. Section 2 presents the sample of banks analyzed during the study. Section 3 focuses on the services offered by these banks to support the internationalization of their corporate customers. Section 4 highlights the path toward internationalization and how it is supported by the services offered by the banks, and finally section 5 concludes.

Figure 4: Companies’ main difficulties in approaching foreign markets

<table>
<thead>
<tr>
<th>Decreasing degrees of difficulty</th>
<th>Company size</th>
<th>Company degree of international openness</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;50 employees</td>
<td>50-249 employees</td>
<td>250 employees</td>
</tr>
<tr>
<td>Company size</td>
<td>Cultural ties</td>
<td>Market access cost</td>
</tr>
<tr>
<td>Lack of knowledge about foreign markets</td>
<td>Local partners unreliability</td>
<td>Cultural ties</td>
</tr>
<tr>
<td>Market access cost</td>
<td>Company size</td>
<td>Credit access difficulties</td>
</tr>
</tbody>
</table>

Source: Confindustria, Rapporto internazionalizzazione Imprese Lombarde (2013)

1. Needs of Italian companies undertaking international expansion
The first phase of the research found that the Italian companies that export their products face certain problems, such as the assessment of the reliability of the counterparty, the commercial and service logistics management and the specific knowledge of each market. One of the most critical points is the need to rely on (local or not) importers, thus giving the choices of market positioning and business policy of their products to a third party.

In particular, the small- and medium-sized companies found that most of the difficulties associated with the internationalization process are dependent on the lack of an internationalization culture and the difficulty of supporting initial investments.
Instead, with reference to the degree of business internationalization, it emerges that the main problems are finding partners for B2B meetings and the analysis of market and economic information about the country.¹

Companies turn to various stakeholders for the distribution of specific services to support internationalization, but none of the different institutions providing services for internationalization represents a privileged partner able to support companies in a holistic manner in the foreign markets entry process. In fact, companies turn to each of the parties taking advantage of their specific expertise.

Companies perceive banks as a key partner for their internationalization projects. This support is provided by banks through distribution of risk mitigation and investment financing tools, as well as pursuit of financial solutions and the examination of benefits that the company can access.

2. Methodology
In this section, the analysis takes into consideration the major European banks, including, though not limited to, those operating in Italy. The results presented refer to the most relevant 15 listed Italian and European banks that have some experience in supporting companies to internationalize. The market capitalization of these banks ranges from €1.5 billion to €85 billion,² and they are characterized by having a different number of branches in up to 75 different countries.

3. Bank corporate services to foster internationalization
To support the international expansion of European companies, leading banks have developed certain services. We have segregated these services into informative, evaluative, operative, and core banking.

¹ Source: Confindustria Rapporto internazionalizzazione Imprese Lombarde 2013.
² The data about the market capitalization is as of February 2015.
3.1 Informative services
Informative services supply information related to the characteristics of the foreign market in order to support companies both in the initial stages of deciding on whether to expand overseas, providing an objective and detailed view on such countries, and during their permanence, providing news and insights about recent development in that environment. Among the different services offered, it is quite common that banks provide information on single countries, including an overview of politics and tax system, and on single markets that are generally available on the bank’s website or on a dedicated portal. In certain cases companies could have access to a limited number of offices or agents dedicated to internationalization in order to have more information about the services offered; nevertheless, there is generally no possibility of obtaining digital support.

3.2 Evaluative services
Evaluative services include company balance sheet and/or business plan valuation and risk assessment. However, the level of detail and analysis is very limited and it is quite common that companies require the assistance of consultancy firms to perform the valuation properly. Furthermore, the banks that have implemented basic valuation tools require the physical delivery of the documents, such as the balance sheet and/or the business plan, or at least a physical meeting with a company executive manager.

3.3 Operative services
Operative services are those related to the ability to provide solutions to ease partnership, reciprocal exchanges, identification of local banks and funding, personnel hiring and networking. Banks provide very limited and non-digital services in this area.

Core banking services
It is not surprising to see that banks are more active in those areas that they have always been. In that regard, they provide standard and well-established services for the management of cash inflows and outflows, exchange rate risk, credit management and corporate financing. Even if there is a high standardization of solutions, as well as of processes and procedures, the level of digitalization is still limited. The majority of SMEs are still physically delivering invoices and similar documents, and the home banking systems are still not developed enough to change the habits of their corporate clients.
Figure 5 identifies the actual level of coverage of major European banks and the degree of digitalization with which the service is provided for each of the four main services.

**Figure 5: Level of banks' coverage and digitalization**

It is obvious that banks will predominantly focus on core banking services. Sadly, however, they are concentrating on those services where profit margins are falling and are highly likely to come under attack from new non-banking players.
In such a scenario, the reaction of the traditional banks is still submissive and apathetic. Banks could integrate their traditional services with those that companies need to internationalize. This will turn out to be a win-win situation with substantial advantages for both sides. Banks that can leverage their long-term relationship with clients will benefit from new sources of revenues that have higher margins, since they are viewed as essential and value-adding. Clients can benefit from the additional services offered on a large scale, which will end up being much more affordable when compared to customized analyses provided by an appointed consultancy firm.

The informative services available are very basic and do not really add value: the same information appears in different websites, some of which are free of charge. Once again, banks could easily improve their offering by leveraging the incredible amount of information they possess from the physical presence of their own offices in different counties.

The offer of evaluative services is still limited and, despite the high margins generated, it is traditionally delegated to consultancy firms.

While operating services might be considered irrelevant, they could be the ones upon which the bank could lay on the foundations of an integrated and proactive offer of services designed to support and ease the internationalization process. Core banking services could be changed from a merely standardized support into variegated services.

Furthermore, the almost inexistence of digitalized services, usable and queryable directly in the company offices, curtails new business opportunities and new forms of access to their services. In an environment where the diffusion of information and communication technology (ICT) has been astonishing in the latest decade, this seems like an important weakness that should be rectified immediately.

In fact, in the past 10 years, the world internet penetration rate has increased from 14.9% to 42.4%. Only coming to existence since 2007, the number of mobile broadband subscriptions is growing globally by about 30% year-on-year, increasing by approximately 150 million in Q1 2015 alone.
Smartphones make up the majority of mobile broadband devices today and subscriptions are expected to more than double by 2020. This is due to greater affordability in developing markets such as Asia-Pacific, the Middle East and Africa. The number of subscriptions exceeds the population in many countries. This is largely due to inactive subscriptions and multiple device ownership – for example, for business and private use, or to optimize pricing by using different operators for different calls. In developed markets, users add secondary devices such as tablets. Mobile broadband subscriptions are expected to reach 7.7 billion globally by 2020. They account for an overwhelming share of all broadband subscriptions. Mobile broadband will complement fixed broadband in some segments, and will be the dominant source of access in others.\(^3\)

With the further development of ICT infrastructure and other services, there is still much space for mobile users to adopt more sophisticated applications through mobile technology. These innovations are not only meant to put a shiny gadget into the hand of a customer, but also to bring them revolutionary change of experience in as many aspects of their lives as possible. This vast space of change creates a new platform for marketers to get in touch with their customers, and it is in turn enriched by innovative practices of creative marketers.

Digital marketplaces could be a possible solution to bridge the very limited availability of digital systems and platforms through which the services required by corporate clients in the different phases of the internationalization process could be provided. The innovative features of the digital marketplace could be easily adapted to this situation. In particular, digital marketplaces are not focused on the coverage of single specific needs and they favor B2C and B2B trades in an international context. Digital marketplaces provide access to communities and forums, supporting the exchange of information and opinions on the products/services offered and incorporate loyalty programs for the clientele.

Along with the progress in ICT, more channels enabled by such technology have become available to companies. The new channels’ capacity could be exploited to complement the limitations of traditional channels in providing customers with a multidimensional experience. These new channels are largely based on internet and mobile technology.

\(^3\) Source: Ericsson Mobility Report, June 2015.
4. The internationalization process and the bank coverage

In order to become international, five different steps in the decision-making process have been identified. To begin with, companies perform an internal analysis in order to evaluate the potential of the company, in terms of availability of resources, to go abroad, both in the short and long term. On that basis, companies also analyze and evaluate their strengths and weaknesses in relation to competitors, customers and suppliers.

Secondly, an analysis of the possible new external environment is required in order to highlight the opportunities and threats (e.g., legal issues, technological issues, market trends) as well as the peculiarities and the attractiveness of the local market and of that particular country.

The decision-making phase results in the development and subsequent evaluation of several strategic alternatives, of which the associated risks have to be correctly identified.

When a decision is made to go international, a detailed business plan is developed, possible partners are identified, logistical and linguistic assistance is organized, legal issues are well analyzed and financing and subsidies are considered.

Finally, once established in the foreign country, the company still requires a continuous commercial and financial assistance.

The coverage of the different steps of the internationalization process by the services actually offered by banks is very limited (see Figure 6). Complete banking solutions have not been developed yet. Still there is no system able to integrate the demand and the supply and to support in the whole process with innovative and digital services for those companies that are interested in expanding abroad.

5. Conclusion

Having presented the services offered by major European and Italian banks to the internationalization process of their clients, it is possible to provide an overview of the current state of play.
Informative and evaluative services should be developed at an advanced level, considering the major difficulties faced by companies, such as the lack of an internationalization culture, the difficulty of supporting initial investments and the assessment of the local counterpart's reliability. Operative services, characterized as high value added, are mainly offered by consultancy firms. The banking system should provide such services, focusing on some of the different steps of the internationalization process such as the internal analysis and the implementation.
The banking system is supporting those companies that have become international a long time ago in a very basic and traditional way, with very limited recourse of the digital enablers. The majority of the current digital platforms are focused on a limited range of services that do not cover the whole internationalization process. Very few innovative banks have developed services to integrate the bank's platforms with their client's ERP systems so as to ease the usability of the services provided, even though they are limited to warehouse and invoice management. This scarce integration among the systems is mainly due to difficulties in IT architectures and in programming languages. Nowadays, there is still no evidence of a complete solution that integrates the demand and the offer and which supports the companies with innovative services at the same time.
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