Fintechs seek net income and setup for future growth

A funding pullback coupled with rising interest rates and normal operating cash burn have the fintech industry in a cost-cutting mood. However, drastically cutting the workforce may hurt growth opportunities. Entities in the industry instead should be considering identifying ways to achieve the right balance between cost-cutting and sacrificing growth potential.

Seeking net income, in addition to increasing gross revenue, may be a better strategy to weather the current economic climate while setting up fintechs for hyper growth when the opportunity presents itself and markets and the industry begin to stabilize. Below are three strategies to consider for adopting a survive and thrive mantra.

Implement cost optimization

Cost optimization is a key focus for fintech firms due to the importance of cash flow. This is the time to challenge department leaders to analyze core systems for savings. What steps could be streamlined or automated? Automating processes can reduce operational costs and improve efficiency while reducing the need for manual labor. There is an upfront cost to these types of optimizations, but they can provide short- and long-term benefits.

With a top-to-bottom review of operations, it is easier to distinguish between core and non-core functions. Outsourcing non-core functions like HR and IT to third-party service providers can help lower those costs while freeing up the company to focus on core functions responsible for driving revenue. Look to cloud providers that have built efficient, low-cost delivery systems to offload non-core functions.

The supply chain is another area where fintech firms can spot inefficiencies or analyze for savings. Contracts can be renegotiated, or a carrot offered for a single source relationship with better terms. Either option may be able to achieve savings.

A message from management to employees framed as a company mission to cut costs can act as a rallying call. Employees know best where waste and inefficiency occur. It may be helpful to reward employees who come up with the best cost-saving ideas. The goal remains the same: maximum effectiveness of core systems.

Assess offerings

During a growth period, the tendency is to expand what you offer and bet that a few hit the mark. Now that the winds have shifted, it is time to streamline the number of options. Get started by weeding out the unprofitable, expensive to produce, or lack a market to sustain.

With the remaining profit centers, apply these five considerations:

Customer demand. How much demand is there for the program or type? Review customer surveys, ratings, and sales/service data.

Profitability. Which option offered generates the most in revenue/net income for your fintech firm? How does that level of revenue/net income compare to other options offered?

Production cost. Review the costs to produce each revenue producing program. Consider unit metrics on historical and future run rate. Factor in recent efforts at cost optimization.

Competition. Every service offering has competition, from the status quo to the hot newcomer. Consult with sales on competition and sales difficulty.

Strategic importance. Which options fit with the firm's strategic plans? Forecasting forward, analyze options based on strategic importance.

After assessing programs or services, move into prioritizing them. List in order of priority in terms of profitability today or showing great promise. The goal is to capture learnings that can inform decision-making. Some decisions may be easy while other calls are difficult and will impact operations and staff. The objective is to be informed and clear-eyed about decisions.

> If the project looks great on paper but requires a lot of equity and probably won't produce much ROI, you need to reassess.
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> – Bill Yialamas , Chief Financial Officer, PayJoy

Create partnerships

A funding pullback and higher interest rates make this an ideal time to consider new partnerships. In fact, KPMG believes it is important that fintechs invest in partnerships.

In addition to partnering with technology companies, look to partner with customers or customers' customers. For universal fintechs with assets horizontally and vertically across the value chain, there are partnership opportunities with Software as a Service (SaaS) and banking-as-service (BaaS) providers. For horizontal fintechs focused on specific services for a targeted customer demographic, rely on application programming interface (API) integrations to partner. Options like embedding services into other companies' customer platforms or embedding lending at point-of-sale are examples of creating partnerships.

Conclusion

Many fintech firms are reorganizing and focusing on the strategies listed here: cost optimization, program discontinues, and creating partnerships. Going forward will require a delicate balance. According to a fintech company on the payment side who spoke at a KPMG Share Forum, "It's important to find the right balance between what you're cutting while not compromising growth," said Bill Yialamas, Chief Financial Officer at PayJoy.

About KPMG Fintech

Fintech firms face major operational challenges, along with a wave of change primarily driven by evolving customer expectations, digitalization, partnerships, and cost pressures. The KPMG Fintech team sees today's environment of converging challenges as a catalyst for improvement by taking advantage of the opportunities that surround us.

Our mission is to help our clients grow, engage with customers, manage costs, and comply with regulations by leveraging the power of data and digitization. By integrating our capabilities across audit, tax, and advisory, KPMG Fintech professionals bring insight to help our clients build competitive advantage and align strategies during this period of substantive change and enormous opportunity.

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