

THE SHIFTING TIDE OF SMALL BUSINESS CUSTOMERS

by [Steve Brown](#)

Like our community bank customers, we love small businesses and we also like to hang out at the beach. Small businesses are great banking customers because they spend an estimated \$353B per year on financial products, use an average of 4 cash management services, employ about 50% of all non-government workers and generate 70% of new jobs in the country. While community bankers currently do a good job supporting small business cash management needs, recent studies show the tide may be shifting faster than many have anticipated. For instance, while 87% of small businesses still write checks for their accounts payable, 72% would rather do so online and 80% of the most profitable want their bank to provide a technology-based electronic payment platform. Further, an estimated 40% of small businesses are currently banking online, a number expected to grow to 65% over the next 3Ys. Bankers need to aggressively explore online delivery and product options in order to remain relevant to this very profitable customer base into the future. In fact, 57% of small business customers say they would change banks if a competitor offered the right mix of products and services. In addition, most also said they felt their primary bank was under serving them, when it came to payment products and services offerings. The good news is that by creating a comprehensive online suite of products and services, community bankers have a great opportunity to capture new business clients. To start, community bankers may want to consider adding online payroll capabilities for small business customers. Competitors like Bank of America are making a big push on this front and the statistics indicate why they are doing so. A full 57% of small business owners have a medium to high interest in managing payroll online and the number of electronic employee payments made by small businesses is up 41% over the past year. Another feature bankers should consider adding to their online banking suite is online invoicing. The number of small business invoices sent electronically has jumped 20% over the past year and 67% of small business owners want their bank to provide them with online invoicing capabilities. Bankers who really want to supercharge their online suite of products should not only offer the products and services outlined above, but should also consider adding: account opening, viewing balances, downloading statements, bill pay; funds transfer (both inside and outside the bank); purchasing CDs; combining statements on multiple accounts, expense dashboard, security email alerts (when new accounts or payees are set up), loan application and checking the status of a loan in process to their suite of small business services. Given that 20% of small business customers actively shopped for a new primary bank in the past 3Ys and that 50% use more than one bank, competition demands bankers upgrade their online banking services as quickly as feasible. As the tide of small business activity shifts rapidly to online delivery platforms, community bankers will have to move quickly, or risk standing on a dry and very hot part of the financial beach.

BANK NEWS

M&A

Popular Inc., the parent company to Banco Popular, plans to acquire 17 branches in Puerto Rico from Citigroup Inc. for \$120mm.

Fed Orders

Due to a jump in loan losses, the Fed ordered BankFirst (\$641mm, SD) to limit the size of its loan portfolio, improve underwriting standards, and submit loan syndication procedures to regulators for approval.

Subprime Slime Spreads

A report finds some of the commercial paper that money-market mutual fund managers regularly invest in contains mortgage backed securities including some subprime loans. Commercial paper yields rose 20bps on Thursday to their highest level since March 2001.

New Product

Bank of America has launched a new mortgage product offering \$300k in insurance. The loan is being offered to police officers, firefighters, teachers, and medical workers regardless of current health. The program is intended to provide housing opportunities to Americans working in noble professions, as well as security in the case of an accident.

Prepaid Cards Poised for Growth

A recent survey showed that 88% of consumers who have used a re-loadable prepaid card are satisfied with it, and 45% think such a card is "extremely useful." Interest for this type of card was highest among "cash-based" consumers and those that have direct deposit relationships with banks.

Competition

Wachovia said it will place its ATM machines in British grocer Tesco PLC, which plans to open in the Southwest U.S. this fall.

Free Credit

Green Dot Corp., the company that sells credit cards at retail checkout stands to anyone who can verify their identity regardless of creditworthiness, plans to expand its program to more than 5,000 Rite Aid locations next month.

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