



Opportunities With Nonemployer Firms Abound

business customers customer acquisition

Summary: Nonemployer firms, which consist of only the owner, have had a hard time with funding, according to a recent report from the Federal Reserve. While 41% of these small businesses reached out to big banks for PPP loans, only 52% of those received the funds they wanted. Community financial institutions have an opportunity with this sector.

Do you happen to know what South American city's inhabitants are called "portenos"? If you guessed Buenos Aires, you are right! This nickname comes from the fact that many people came to Buenos Aires, Argentina by boat through the city's port from Europe.

Another thing you probably know is that small businesses without any employees on payroll are called nonemployer firms. These types of businesses represent about 81% of all small businesses. Since this segment is valuable to community financial institutions (CFIs), we wanted to highlight [new data coming from the Federal Reserve](#) that provides more insight into this group.

Funding gaps persist

Nonemployer firms, like employer firms, continue to face challenges in the pandemic's wake. At the time of the Fed's survey, from September-October 2020, 36% of smaller nonemployers — those with \$100K or less in annual revenues — reported their financial condition as "poor." Add that to 23% of those considered larger nonemployers, with more than \$100K, and you have 59% of nonemployers struggling.

Part of the reason for these responses has to do with funding. When we last [broached the topic in 2019](#), we noted that CFIs might be surprised to learn the extent to which these businesses find funding elusive. This challenge remains, according to the survey, which noted that nonemployer firms still tend to rely more heavily on personal funds vs. seeking out a financial institution's help. This can be for any number of reasons, including a fear of being turned away. This makes it more important for CFIs to act proactively, if they want to support these businesses.

Takeaways from PPP

While 65% of nonemployer firms chose not to apply for PPP loans, those that did apply more often chose a large bank over a small bank (41% vs 35%.) CFIs may want to broaden their outreach, if they want to be considered for future funding needs. This is especially important since one-third of those that applied for PPP loans didn't get any funding at all. CFIs likely have a better understanding of many of these businesses than their larger brethren and can work with them towards recovery.

Case in point, 63% of nonemployer firms that applied for PPP with a small bank received their total funds requested. By contrast, only 52% of nonemployer firms who sought funding from a big bank received their total requested amount. That figure falls to 45% with online lenders.

Opportunities abound

Certainly, there are challenges to finding profitable nonemployer firms and obtaining them as new customers. But it's an important group that should be given an extra look. There were about 25.3MM nonemployer businesses in the US in 2017, according to the latest data available from the Census Bureau. Many of these could be in your neighborhoods.

Knowing this gives you an opportunity to target your marketing locally to reach those in need of funding. Gathering data, reaching out in your communities, and targeting your marketing efforts can provide them with the information they need to understand how you can help. This type of personalized attention allows you to establish long-term relationships and build customer loyalty more easily too.

Reaching out to nonemployer businesses gives your institution a way to expand your customer base and deepen relationships. Furthermore, since 25% of nonemployer firms plan on adding employees over the coming 12 months, many of these businesses could grow. As they expand, your business can expand.

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ECONOMY & RATES

Rates As Of: 09/29/2021 05:18AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.04	0.00	-0.05
6M	0.06	0.00	-0.03
1Y	0.09	0.01	-0.02
2Y	0.30	0.09	0.18
5Y	1.00	0.22	0.64
10Y	1.52	0.20	0.59
30Y	2.07	0.13	0.42
FF Market	FF Disc	IORR	
0.08	0.25	0.15	
SOFR	Prime	OBER	
0.05	3.25	0.07	

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