



How To Win the Battle for Small Business Customers

small business business customers

Summary: Small businesses form the backbone of not only the US economy but the client lists of many CFIs. But almost a third don't think their banking institutions understand their needs. We look at some ways financial institutions can better support small businesses throughout their growth lifecycle.

Did you know that YouTube, which was started by three ex-PayPal colleagues, was initially created as an online space for users to upload video dating profiles? When this concept didn't take off, they turned it into a platform for people to share home videos. Acquired by Google for \$1.65B in 2006, YouTube is now the second-most-visited site in the world, with over 2B people watching or sharing videos on the platform every month.

Not all entrepreneurs and small businesses experience such a meteoric rise, but they remain the backbone of the US economy and a key driver of growth. There are approximately [33.2MM small businesses in the US](#), providing work for almost half the working population. Over 180K more small businesses opened than closed in the last survey data of SBA from March 2020 to March 2021.

Now the bad news: research suggests that almost [a third of small businesses](#) don't feel their financial institution fully understands their needs. Meanwhile, 44% of SMBs say they can manage all their business banking needs online. This represents a huge opportunity — and a perennial challenge — for community financial institutions (CFIs) to find better ways to better support small business customers throughout their growth journey. Here are some suggestions:

1. Flex your services as small businesses grow.

As small businesses grow, their financial needs will change and develop. For example, embedded basic invoicing and receivables capabilities may be particularly important to solopreneurs and microbusinesses just starting out. As they grow larger, they may start to require other capabilities, such as payroll, cash and account management, and even commercial borrowing facilities.

To meet — and exceed — small business owners' expectations, institutions should aim to provide services that match all their customers' financial requirements at different stages of their growth journey so they don't outgrow you as their banking partner. Look to scale these solutions as the customers' needs change.

2. Find the right digital platform.

Many small businesses are turning to fintechs to provide a fully digital solution that meets all their money management and transactional needs. For example, Stripe and QuickBooks offer a full range of financial services, can handle transactions, and are able to easily adapt and scale their services according to a business' changing needs.

As such, CFIs may want to consider investing in an effective integrated digital platform specifically for small business customers. Ideally, your institution should be able to offer the wide range of different financial services a small business needs, while also providing streamlined digital access to its core deposit, lending, investment, and advisory banking services.

On a more positive note, CFIs should leverage the [advantages they have over fintechs](#) to help them stand out in this crowded market. This could be your regulatory requirements that provide an additional layer of protection for customers, your longer-term relationships with your customers, and your reputation within your communities. CFIs provide face-to-face contact and trusted expertise, and they often offer a wider range of financial products and services than fintechs, which they can use to their advantage.

Aside from providing business customers with the digital services they want, the right integrated platform will give CFIs access to more detailed data and insights about their customers. This should help them better support existing customers and identify how to target new ones.

3. Get up to speed with online lending.

Digital technology can enable much faster and more efficient processing of loans — a service most small businesses expect of their financial institutions. This means [online lending](#) needs to be at the heart of an institution’s integrated platform. Bank Director’s 2022 Technology Survey showed that only [14% of the financial institutions surveyed](#) offered a fully digital loan process for small businesses, while 31% offered an online loan process for retail customers.

CFIs may also want to incorporate nontraditional or alternative credit data and scoring methods into the lending decision-making process to help meet the needs of more underserved business customers.

4. Always be price competitive.

Offering services at lower fees and better rates than competitors in the market will likely improve an institution’s appeal, but it may not always be effective for your net interest margin. As an alternative, your institution may also want to offer other incentives for opening accounts, discounts through partnerships with local companies, and rewards such as cashback.

Offering other nontraditional financial services could attract small businesses interested in fast growth — for example, running incubators and accelerator programs and providing networking opportunities to help business owners connect with potential investors and other businesses.

Many of these solutions will require significant investment in technology and capabilities. Financial institutions should consider [whether partnering with the right fintechs or technology service providers](#) will help ensure they’re able to continue to support their small business customers to grow and develop into the future. Whether they choose to have outside assistance or manage a solution in-house, it’s to every CFI’s advantage to stay on top of what small business customers need in their financial services providers and make it happen at their institution.

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ECONOMY & RATES

Rates As Of: 07/11/2023 06:47AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.48	0.05	1.06

6M	5.54	0.07	0.78
1Y	5.37	-0.03	0.66
2Y	4.88	-0.01	0.45
5Y	4.25	0.10	0.25
10Y	4.00	0.16	0.12
30Y	4.04	0.17	0.07
FF Market		FF Disc	IORR
5.07		5.25	5.15
SOFR		Prime	QBER
5.06		8.25	5.07

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