



## Want to Grow Your Business Customer Base? Think Really Small.

small business business customers

**Summary:** Sole proprietorships are the fastest-growing demographic in new business startups. They represent an area of opportunity for CFIs willing to tailor service offerings and dedicate staff to micro companies, yielding strong banking relationships that can grow with these tiny businesses.

When Richard Branson was 13, he started a magazine called “Student.” It was his first business. Today he owns more than 400 businesses through his Virgin Group and is a billionaire. As he has said, “A big business starts small.”

Community financial institutions (CFIs) understand well what Branson means. Small business lending is their lifeblood. But even small businesses come in different sizes, and CFIs can become so fixated on lending to growing small businesses that they overlook the tiniest ones. That can be a costly mistake, particularly these days, when there has been a surge of activity at the lower end of the small business spectrum.

### The Pandemic and Small Business

One of the lasting impacts of the pandemic was a decision by many workers to leave their employers and start their own businesses. New business formation surged, particularly the really small ones — the sole proprietorships. From 2017 to 2022, the [number of sole proprietors grew](#) from 26.1MM to 36.8MM, a 40% jump. At the same time, the trend of businesses with two to 500 workers was flat. The number of businesses with less than \$100K in annual revenue rose during the period, while the number with \$1MM to \$20MM dropped slightly.

So, the most action has been at the lowest end of the revenue spectrum. The thing about very small businesses is that, as Branson observed, many of them grow into bigger businesses. Establishing relationships with promising sole proprietors not only lands a new business customer but can also put the CFI on a path to a more robust relationship if those businesses expand. In short, establishing a relationship with a sole proprietor holds the hope of more banking business in the future.

### Underserved Market

The good news for CFIs that want to grow their sole proprietor relationships is that there is lots of opportunity. That applies not only to establishing new relationships but also to growing existing ones. Those smallest businesses were getting far fewer pitches from banks than bigger businesses.

Businesses with yearly revenue of under \$1MM have been getting pitches for products and services about 2.8x a month, compared to 4.1x per month for businesses with yearly revenue between \$10MM and \$20MM.

### Knowing What Small Businesses Need

To better serve this micro business market, it helps to understand who is at the helm of these businesses. Sometimes these are promising tech innovators trying to launch an idea. But mainly, these are individuals such

as freelance creatives, accountants, tutors, personal trainers, and providers of services like cleaning and repair. Sometimes they are franchisees.

Despite the wide range of industries that they work in, sole proprietors tend to share some common needs and wants. At this size and stage, they may or may not be ready for fancy business services and financial products aimed at companies with sizeable payrolls. What they will need are the basics: checking accounts, bill-paying services (particularly faster payments, because cash flow is an ever-present concern), and cash management. They may not be very savvy when it comes to accounting, budgeting, or planning for future business needs, so any help you can provide on that front is a big plus.

The good news for CFIs is that they remain the preferred financial institution (FI) for small businesses, with [67% using small or regional institutions](#), according to a survey taken in April 2023. Only 14% use one of the largest FIs. Almost nine of every 10 small business owners say customer service is very important when choosing their FI. That’s more good news for CFIs, which tend to rank higher on the quality of customer service.

Services for Smallest Businesses

Many small business owners have a business account separate from their checking account. But just slightly more than half use the same FI for both purposes. So, there is potential for consolidation at a single FI.

One factor that can help your CFI stand out to sole proprietors is access to a [dedicated business banker](#). These individuals offer business owners advice on best practices for managing their finances. They can also provide insight by regularly reviewing accounts and offering strategies for improvement or alerts for potential problems.

Other services that a very small business may look for:

- Integration of banking services with the customers’ own accounting software so they can monitor and track finances in real time.
- Help with payroll basics — sole proprietors need to get paid, so a CFI that offers a basic payroll service can be an important addition for a very small business.
- A business credit card to use for expenses.

For CFIs, the smallest businesses can be fertile ground for landing new customers. Sole proprietorships are the fastest-growing startup sector, so knowing what they want and how to serve them is essential and likely to be profitable as this group and their financial needs expand. Offering basic services (with attractive features like [minimum balance requirements](#)) and personal attention can foster a solid financial relationship that grows with the micro business.

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Treasury	Yields	MTD Chg	YTD Chg
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3M	5.54	-0.01	1.12
6M	5.52	-0.01	0.76
1Y	5.32	-0.04	0.62
2Y	4.83	-0.05	0.41
5Y	4.23	0.05	0.23
10Y	4.11	0.15	0.23
30Y	4.25	0.24	0.29
<b>FF Market</b>		<b>FF Disc</b>	<b>IORR</b>
5.33		5.50	5.40
<b>SOFR</b>		<b>Prime</b>	<b>OBFR</b>
5.30		8.50	5.31

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