

AMERICAN BANKER

# SMALL BIZ BANKING

## The State of Small Business Banking:

New insights into what matters most in small business banking relationships

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## Research overview

### Objective

- To explore what matters most to small business banking customers in their banking relationships.
- More specifically to examine the key challenges facing small businesses today and key priorities/areas of focus as they look to grow in the future.
- The research also explores small business sentiment about their banking experiences with an eye towards identifying opportunities for banks to better serve this important customer segment.

### Methodology

- Online survey conducted during July and August 2022.
- A total of 358 small business stakeholders responded.
- Qualified respondents lead or actively participate in their businesses' banking relationship.

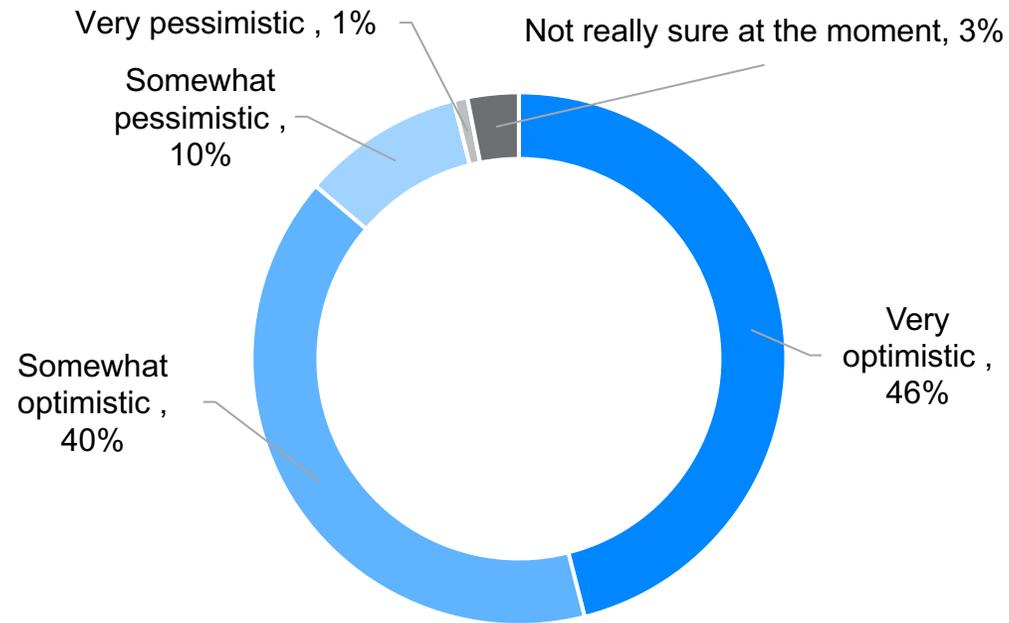
What's on the minds of small business stakeholders?

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**Overall small business stakeholders, particularly larger small businesses, are feeling optimistic about the future of their businesses**

How are you feeling about the future of your business?



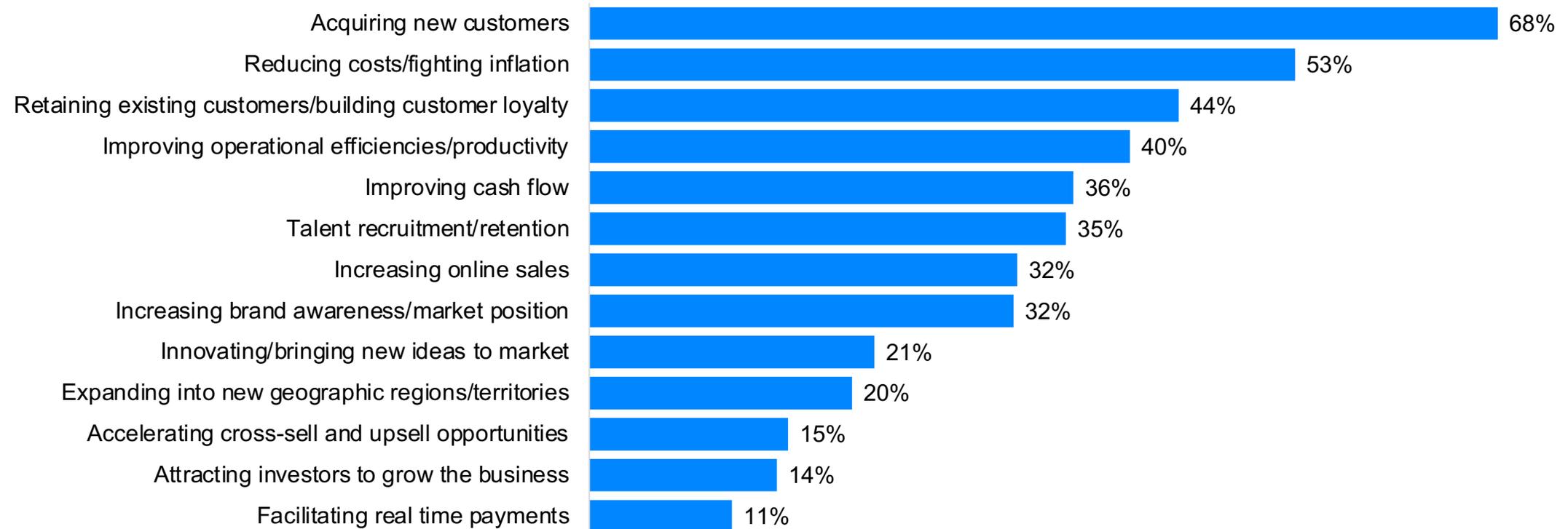
	% very/somewhat optimistic
Less than 20 employees	77%
20-99 employees	89%
100+ employees	93%

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## For the coming year, small businesses are most often focused on customer acquisition, fighting inflation and building customer loyalty

What are your company's most important business priorities for the next 12 months?

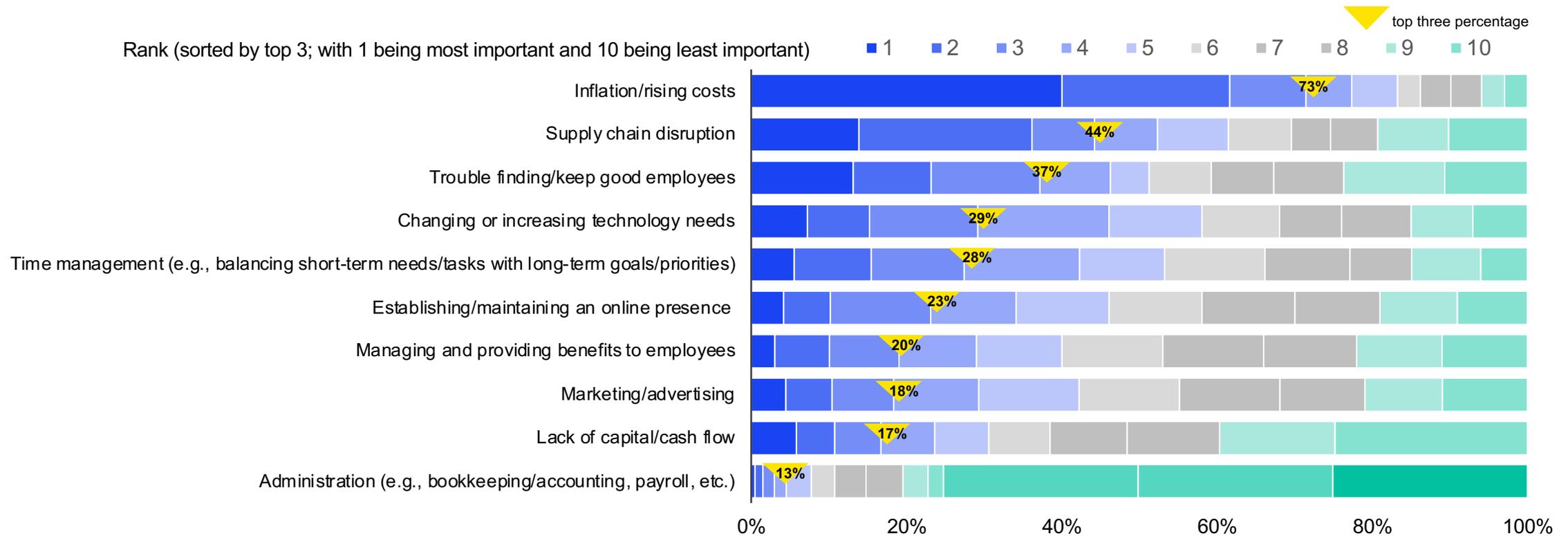


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## Priorities being tested by challenges with inflation, supply chain disruption, finding/keeping good employees, and technology

Please rank in order of importance, the degree to which each of the following is a challenge for your business today, where 1 indicates it is the biggest challenge you are facing at the moment and 10 indicates it is the least challenging aspect of the items listed



Source: Arizent/American Banker, The State of Small Business Banking, 2022

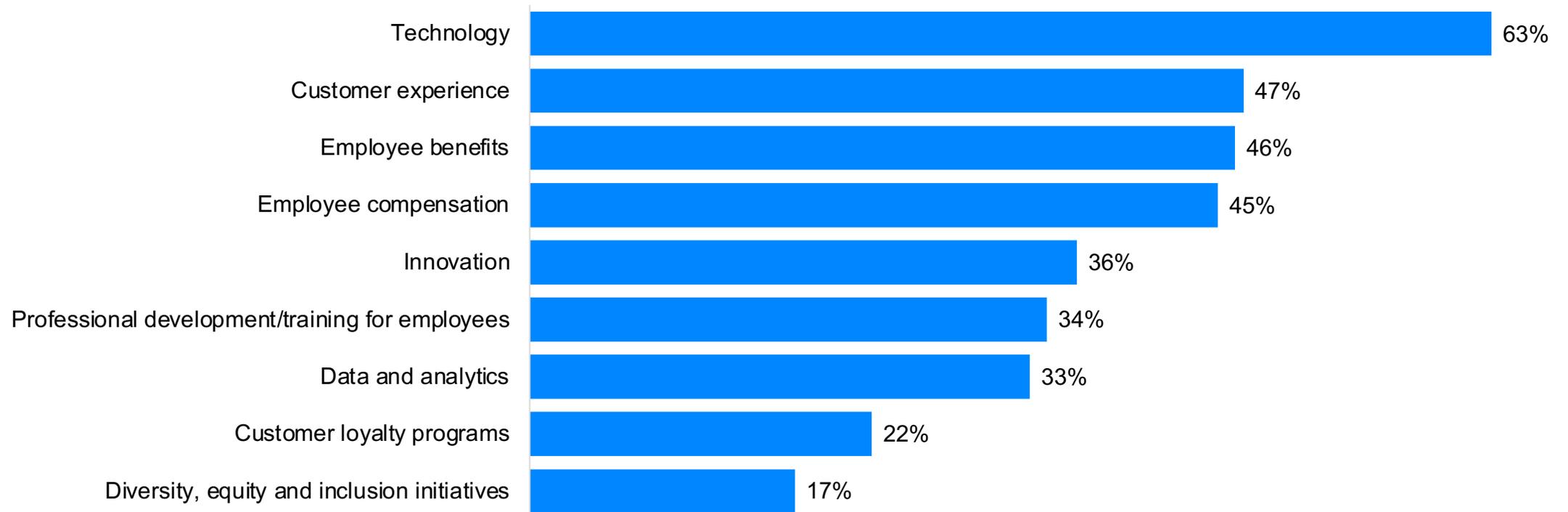
Labels for values less than 5% are not shown

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## Small businesses are taking action, with many increasing investments in technology, a step that could help mitigate top challenges and advance key goals

In which of the following areas is your company planning to invest more over the next 12 months?



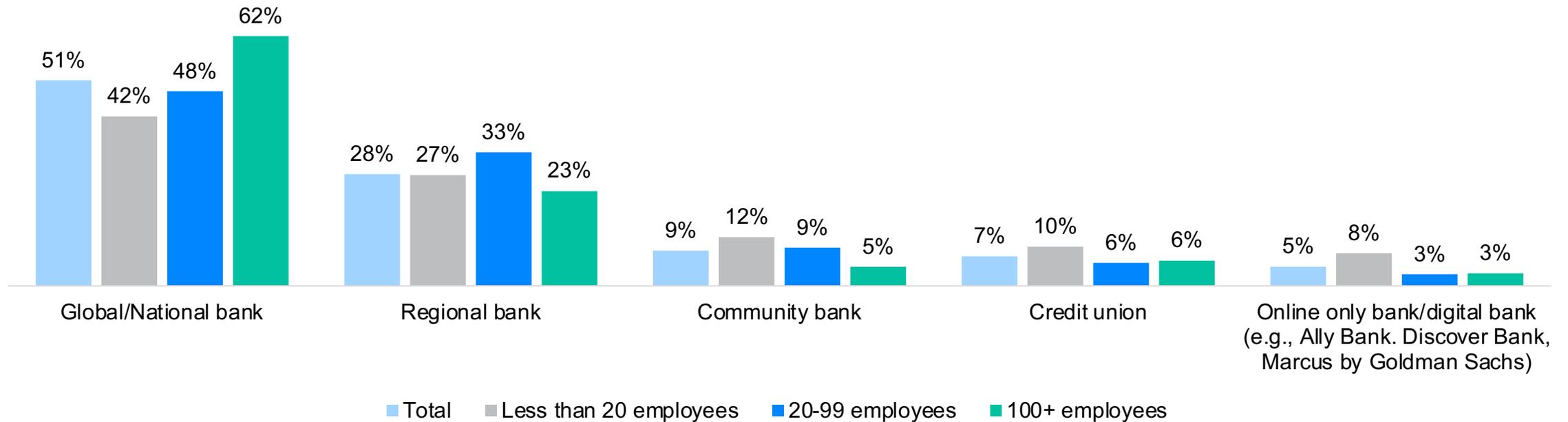
What does it mean to be a small business bank?

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## Small businesses of all sizes most often establish primary banking relationships with global, national and regional banks

What type of financial institution is your company's primary banking provider?

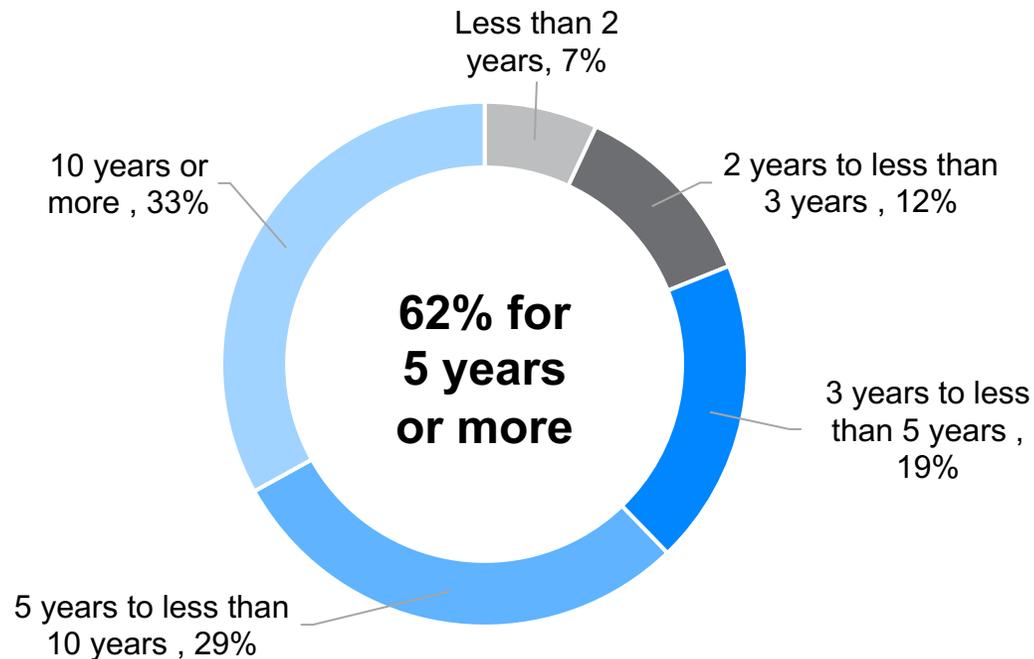


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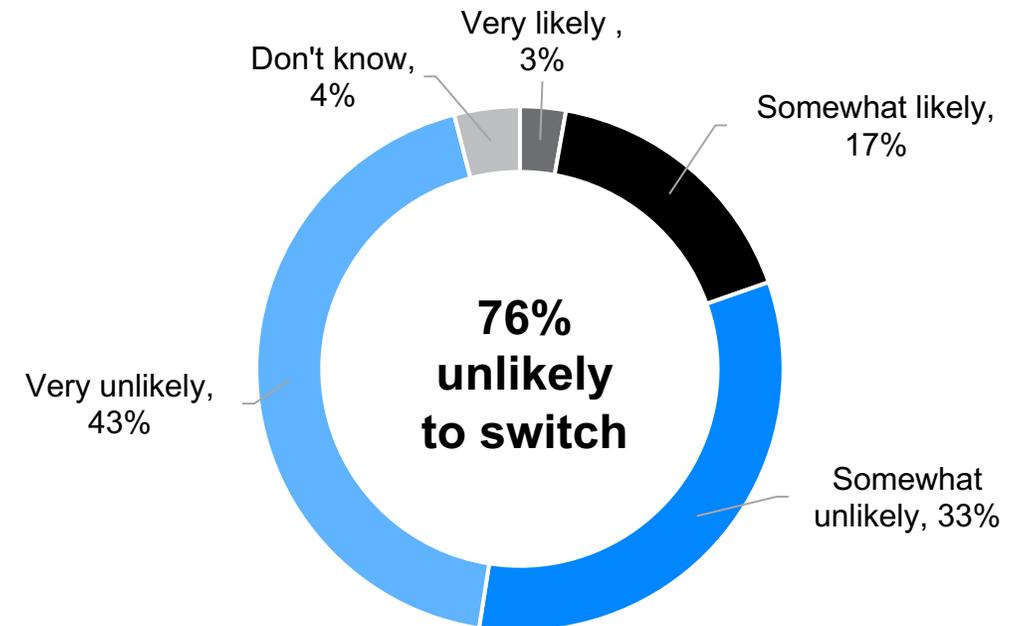
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## Small businesses engage with their primary banking provider for the long haul and are unlikely to switch to a different institution

How long has your company had a relationship with your primary business banking provider?



How likely are you to switch your primary banking relationship to another institution in the next two years?

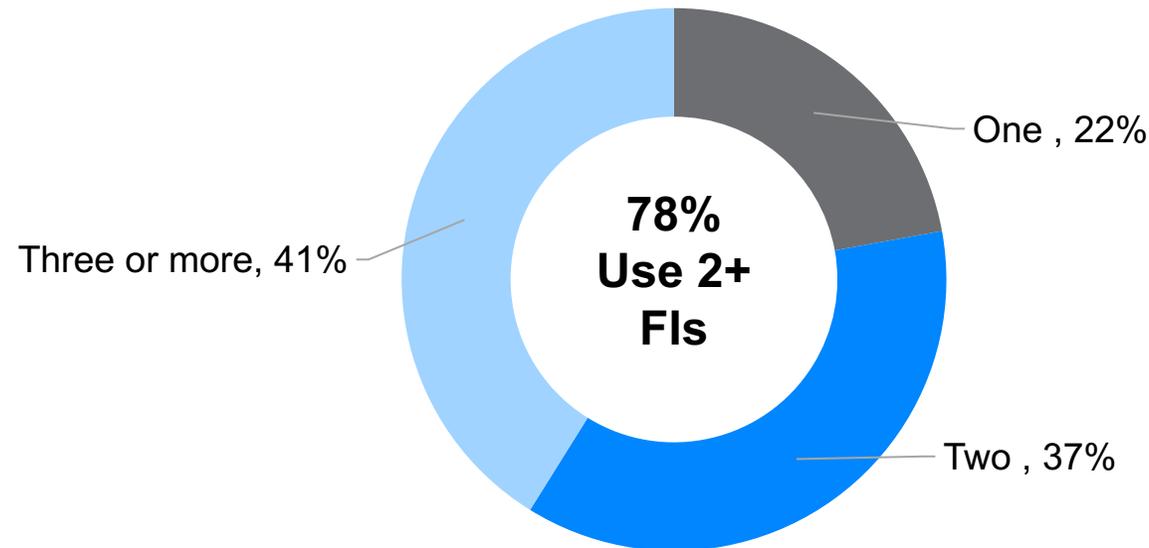


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## Yet, the majority of small businesses rely on more than one financial institution to support their business needs

How many different financial institutions, including banks, credit unions, industrial loan corporations, card processing banks, etc. does your organization use to support its business needs?

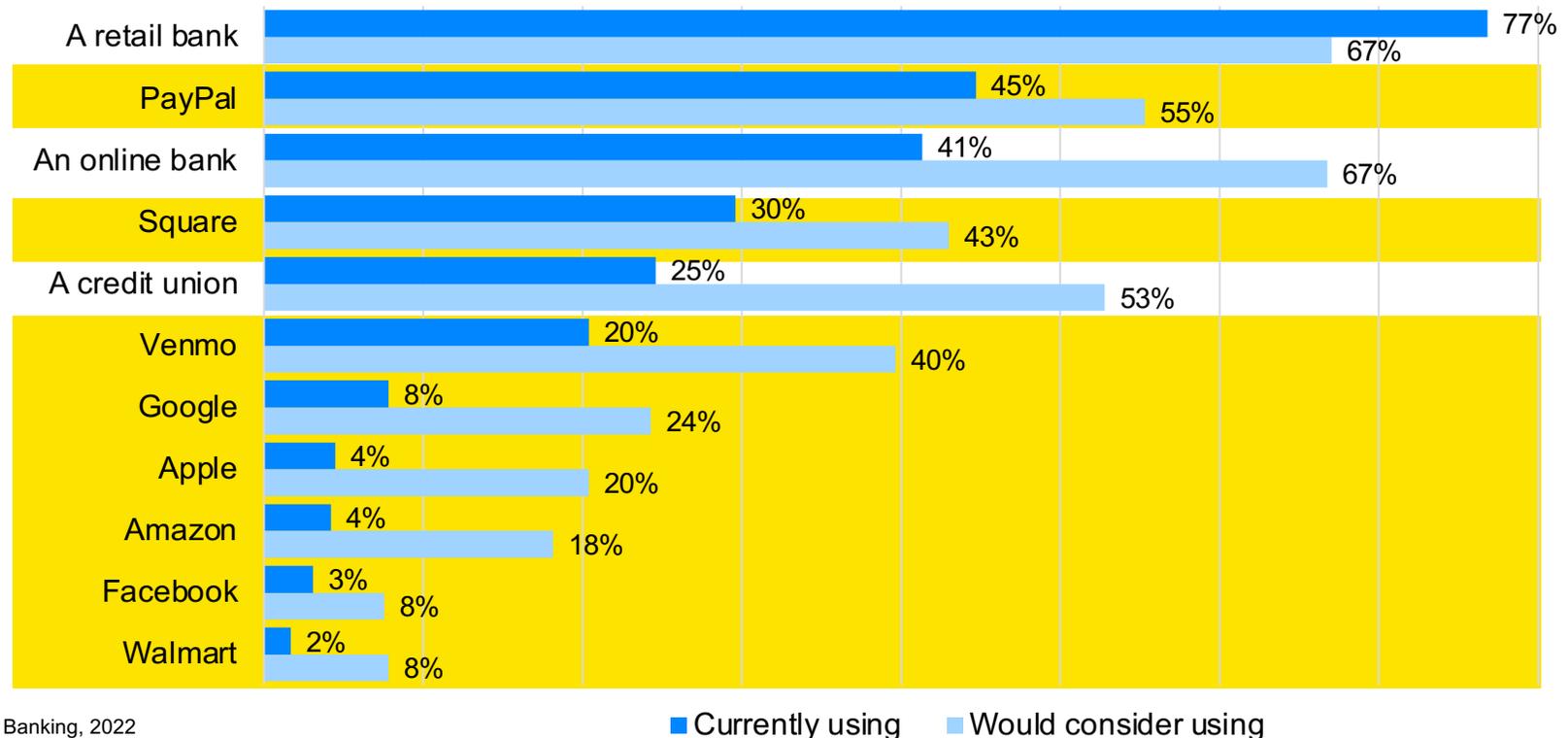


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**In fact, small businesses are taking a more expansive view of banking with many considering non-bank entities to support future banking needs**

Which of the following entities or services is your company using to support its banking needs today?  
 Which would your company consider using to support its banking needs in the future?

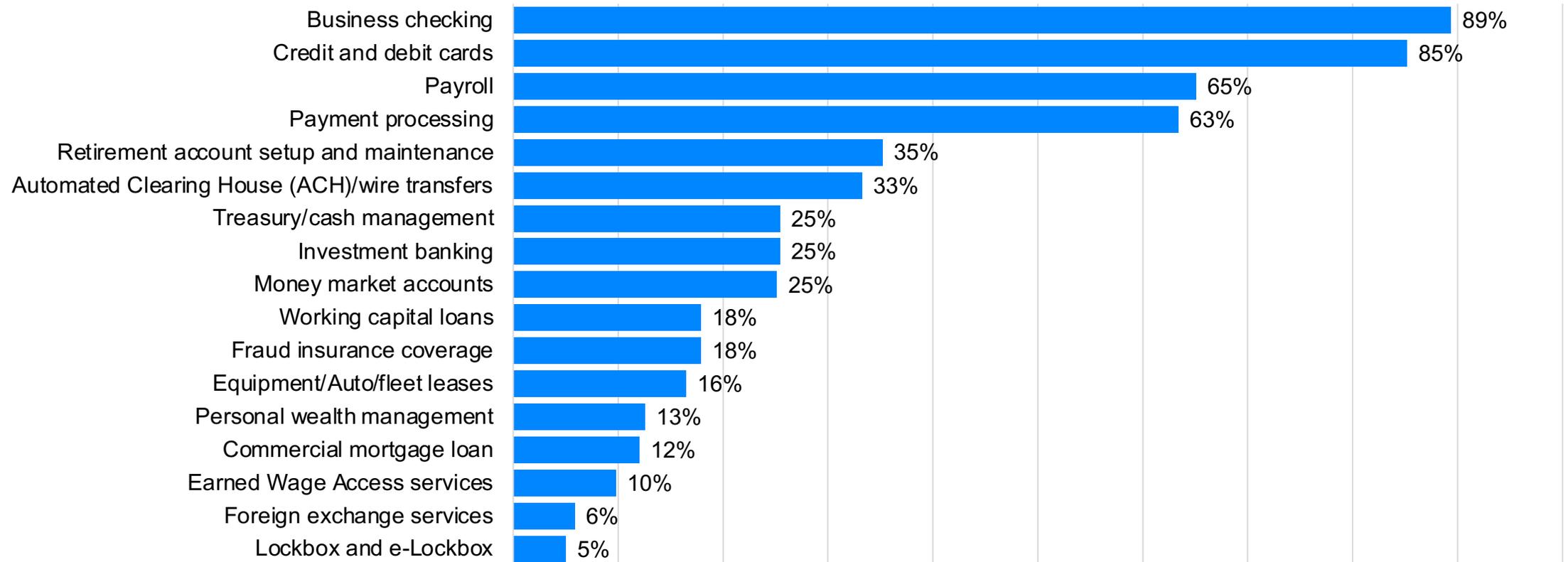


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## Other FIs, beyond the primary banking provider, may be well positioned to address small business needs for services beyond business checking and credit/debit cards

Which of the following business banking products/services does your company currently use?

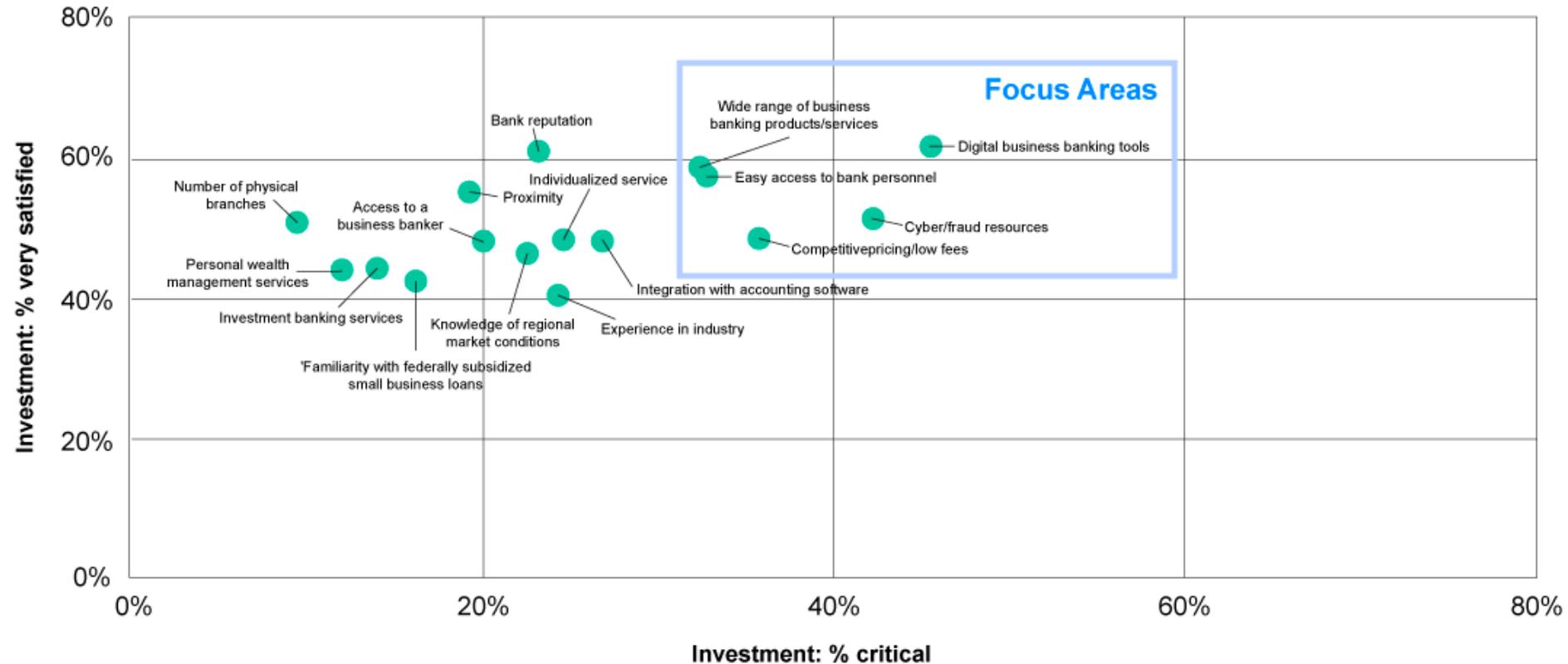


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**Designing from the outside in versus the inside out will help banks deliver on the attributes small businesses value most in their banking providers**

Importance – Performance gap analysis



What is the risk of not taking action?

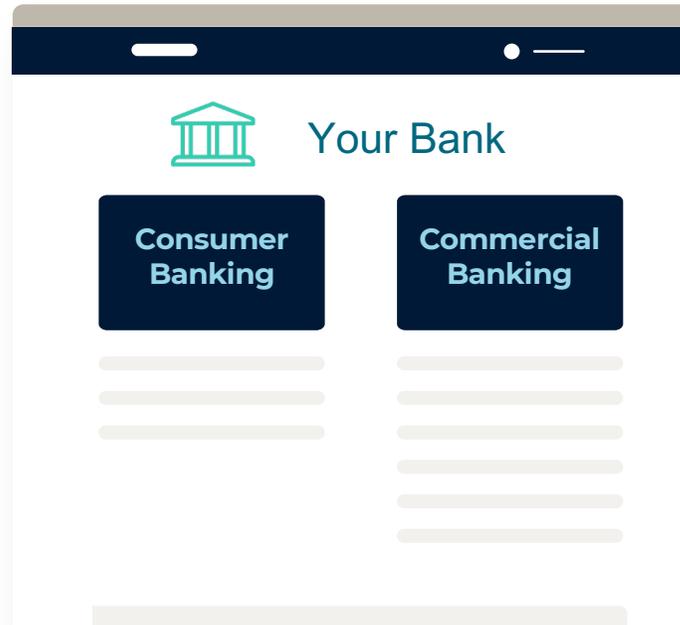
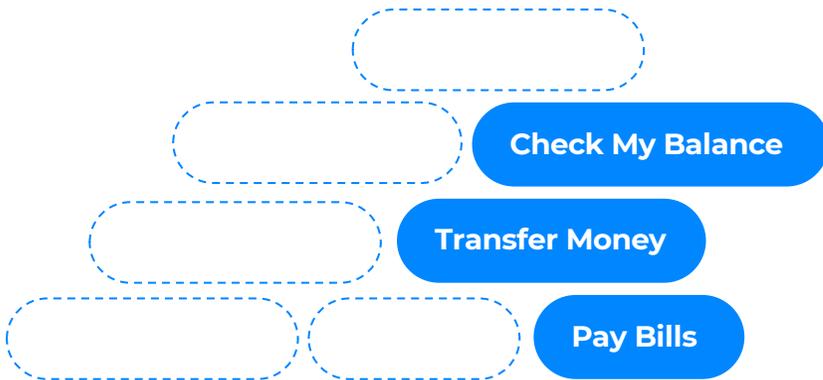
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## When a small business visits your bank, what do you have to offer to help them accept digital payments?

### Consumer banking

is too basic & lacks payment acceptance tools



### Commercial banking

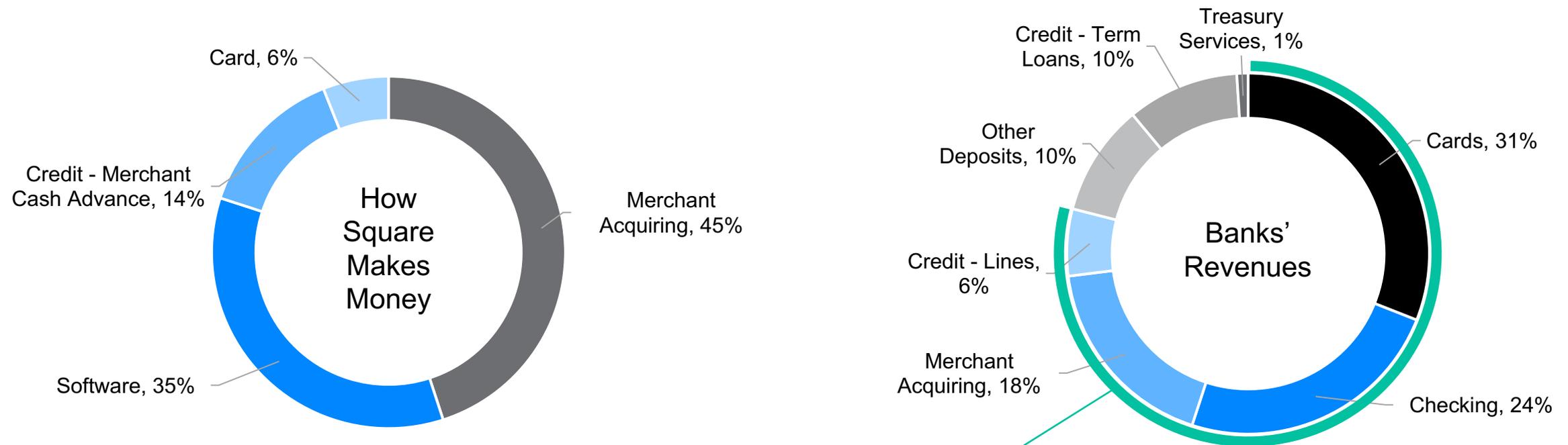
is too complex & the payment acceptance tools are not the right fit



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## Third-party app providers are targeting banks' revenues



NEARLY  **80%** of small business revenue is at risk

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## Financial Institution Benchmarks

This analysis represents per FI averages based upon total incoming deposit activity from PayPal, Square, and Venmo.

Asset Range	# of Accounts per FI	% of Account Penetration	Total Monthly Deposit Amount per FI
< \$1B	162	12.2%	\$3,174,238.81
\$1 - \$3B	566	11.2%	\$11,793,528.76
\$3 - \$10B	1,726	10.5%	\$30,425,154.64

## Account Benchmarks

This analysis represents per account averages based upon total incoming deposit activity from PayPal, Square, and Venmo.

Asset Range	# of Transactions per Account	Average Deposit Amount	Average Total Monthly Deposit Amount per Account
< \$1B	20.56	\$953.63	\$19,604.15
\$1 - \$3B	21.53	\$967.53	\$20,832.53
\$3 - \$10B	20.70	\$851.90	\$17,632.09

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## Benchmarking the Competition – Account Averages

This analysis represents per account monthly averages of incoming deposit activity per third-party app provider.

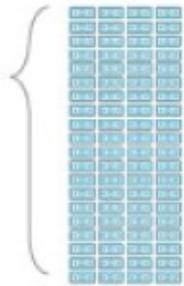
Asset Range		# of Accounts per FI	# of Transactions per FI	# of Transactions per Account	Average Deposit Amount	Average Total Deposits per Account
<b>&lt; \$1B</b>	PayPal	52	433	8.29	\$1,952.96	\$16,188.62
	Square	60	2,412	39.97	\$872.38	\$34,868.93
	Venmo	49	484	9.80	\$464.35	\$4,551.51
<b>\$1 - \$3B</b>	PayPal	192	1,659	8.64	\$2,168.40	\$18,733.95
	Square	238	9,240	38.80	\$817.09	\$31,699.42
	Venmo	136	1,290	9.49	\$500.54	\$4,750.84
<b>\$3 - \$10B</b>	PayPal	592	4525	7.64	\$1,392.78	\$10,641.05
	Square	690	2,6881	38.98	\$808.19	\$31,500.35
	Venmo	444	4,309	9.71	\$556.65	\$5,406.19

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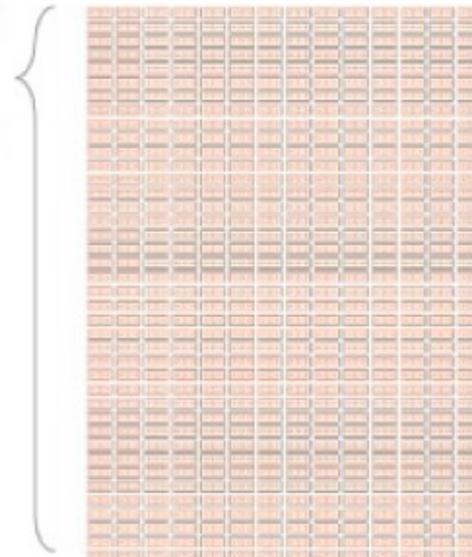
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## When SMBs get paid through third party apps, most of the \$\$ stay in the app ecosystem

For every **\$1 deposited** into the FI from a third-party app...  
\$80,000 a month deposited



**\$7 stayed** in the third-party app



An analyzed bank experienced **87.5%** deposit growth from existing accounts

\$580,000 a month not deposited

Based upon deposit analysis of 308 accounts that adopted Autobooks

Final thoughts

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**For more detail, please contact:**

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