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Small business banking **Time for a refresh**

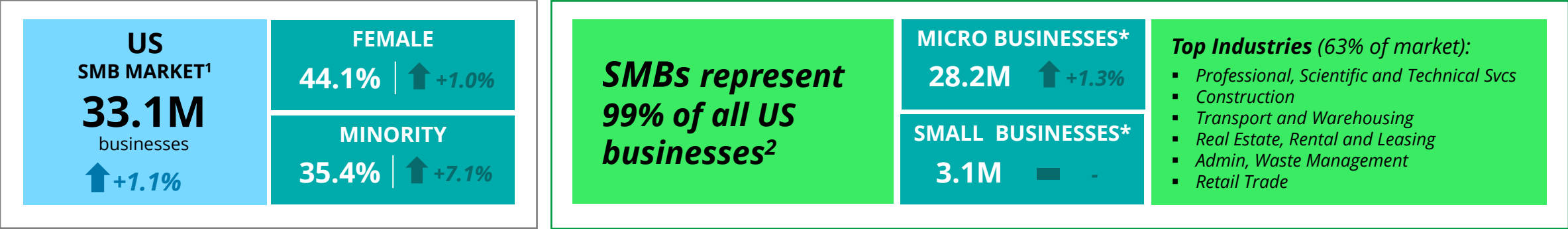
Research findings, September 2024

Converge™
by Deloitte

The small and micro business (SMB) market is a growing, yet underserved segment sometimes lost between retail and commercial banking offerings

The SMB segment is an evolving and demographically unique market...

**Micro = Annual Revenue <\$250K; Small = Annual Revenue <\$1M*



...however, current banking offerings and service levels are often below expectations, leaving opportunity for growth.



Large banks take
2-3 weeks
to deliver a decision
on SMB loan versus
24-48 hours
for online and
alternate lenders³



<50%
of SMBs report their
credit needs are met⁴



\$370B
revenue opportunity for
banks and credit unions
for small business
accounting and payment
services⁵



Minority-owned businesses are
10% less likely
to say they have sufficient
financing in place compared to
white-owned firms⁴

THE PUNCHLINE:

Banks should rethink how to engage and solve for small and micro business banking needs

The business banking market should be viewed as a continuum, with different businesses having significantly different needs and preferences. Banks that offer a single proposition for both SMBs and medium businesses are missing the mark, as the distinct needs of these two segments are not fully addressed.

We believe that small and micro businesses (with <\$1M in annual revenue) are underserved, and these business owners are looking for a proposition more similar to their retail banking experience.

We see an opportunity for a standout performer to emerge in the United States.



**We recently worked
with 500+ Small and Micro
Businesses across the
United States to
understand their banking
behaviors, relationships,
digital banking
preferences,
and switching propensity.**



Our research and experience tells us that...



SMB customers are typically underserved by banks, often lost between retail and commercial segments with banking operating models, including line-of-business structures and data visibility, typically limiting the ability to realize full customer value.



When developing compelling value propositions, banks need to offer **core banking products** and **robust experiences across different channels (digital and physical) and journeys.**



Given cross-over at lower end of the business segment, including founder/sole proprietor clients, **there is material SMB growth opportunity in cross-selling between consumers and business owners.**



Banks should instead view customer relationships as a continuum from retail to micro and small to commercial; not as discrete sub-segments for sales, product offerings, and servicing.



Small businesses seek more than just transactional banking products; they are also looking for financial advice and value-added services as they grow.



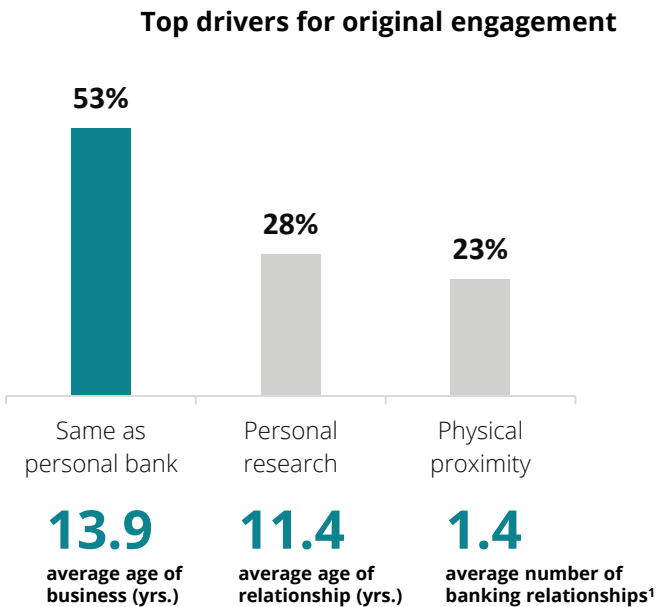
New propositions and campaigns should focus on expanding the product and service portfolio in a manner that **increases the share of wallet** of existing customers while **acquiring new-to-bank customers.**



Small business customers typically choose providers based on consumer banking relationships and retain their relationship based on convenience

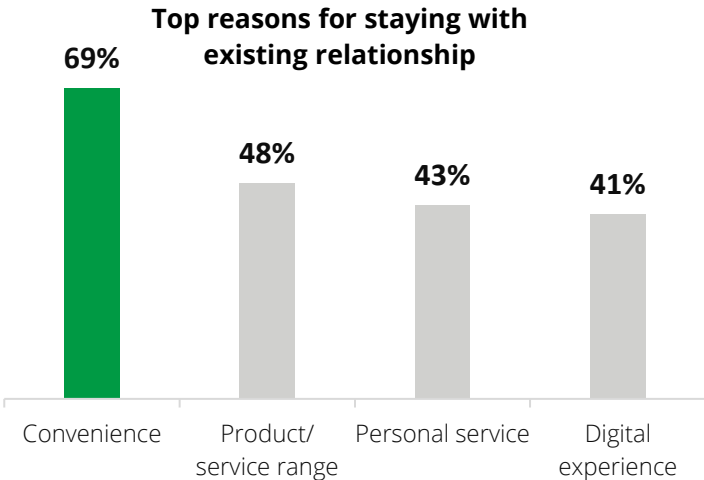
ESTABLISHING PRIMACY NEAR INFANCY

Small business owners most often default to their personal banking provider when selecting their business banking partner, and when acquired early in the business, typically maintain the same banking provider throughout.



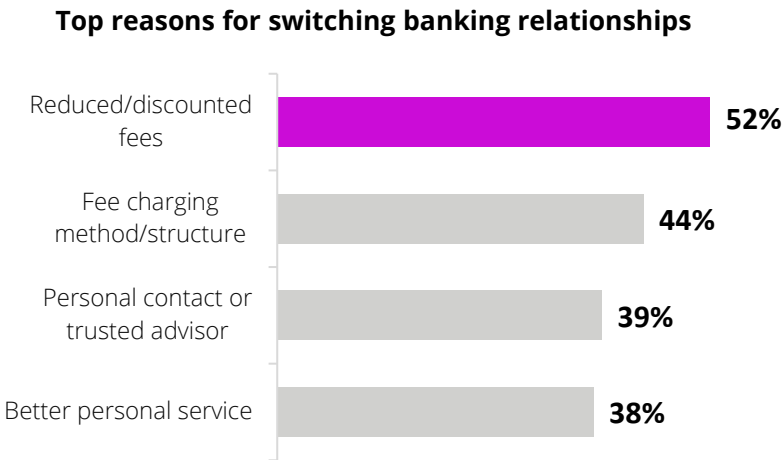
MAINTAINING EXISTING BANKING RELATIONSHIPS

Convenience drives small businesses to stay with their current banking relationship, which underscores the criticality of establishing primacy near infancy to maintain existing banking relationships and **deepen share of wallet** over time.



INCENTIVIZING SWITCHING OF BANKING PROVIDER

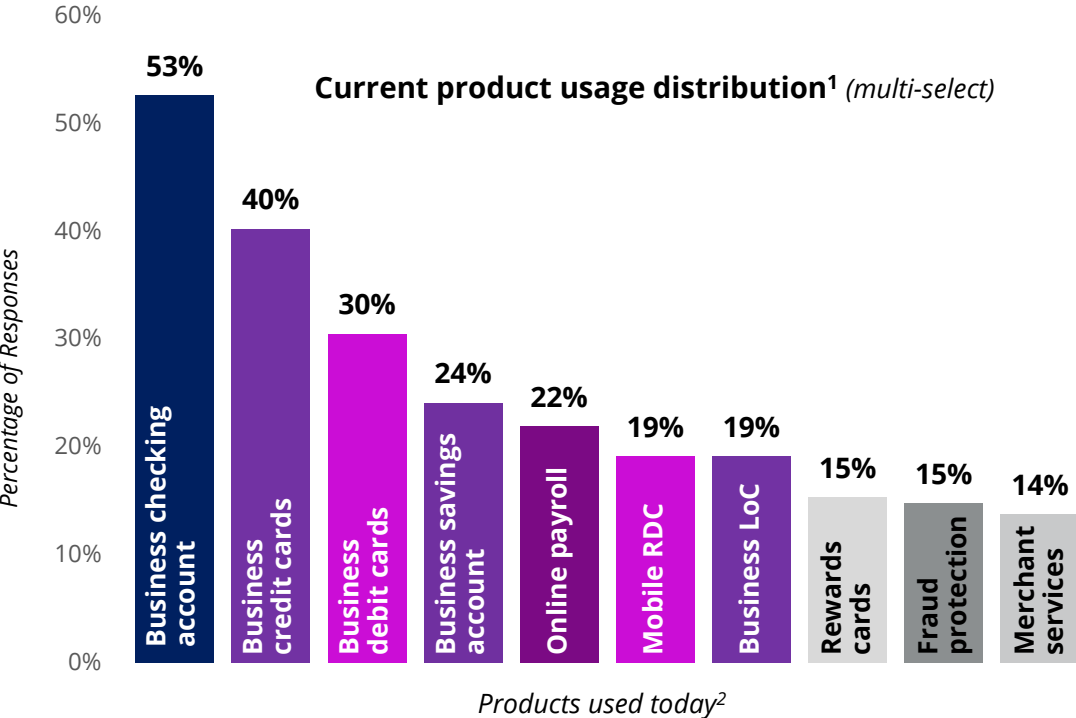
Small business owners choose to switch their banking relationship most often due to lower fees and discounts, though research shows **seamless digital onboarding**, ease of switching tools (e.g., account aggregation/funding) are fundamental.



¹Based on number of relationships listed.

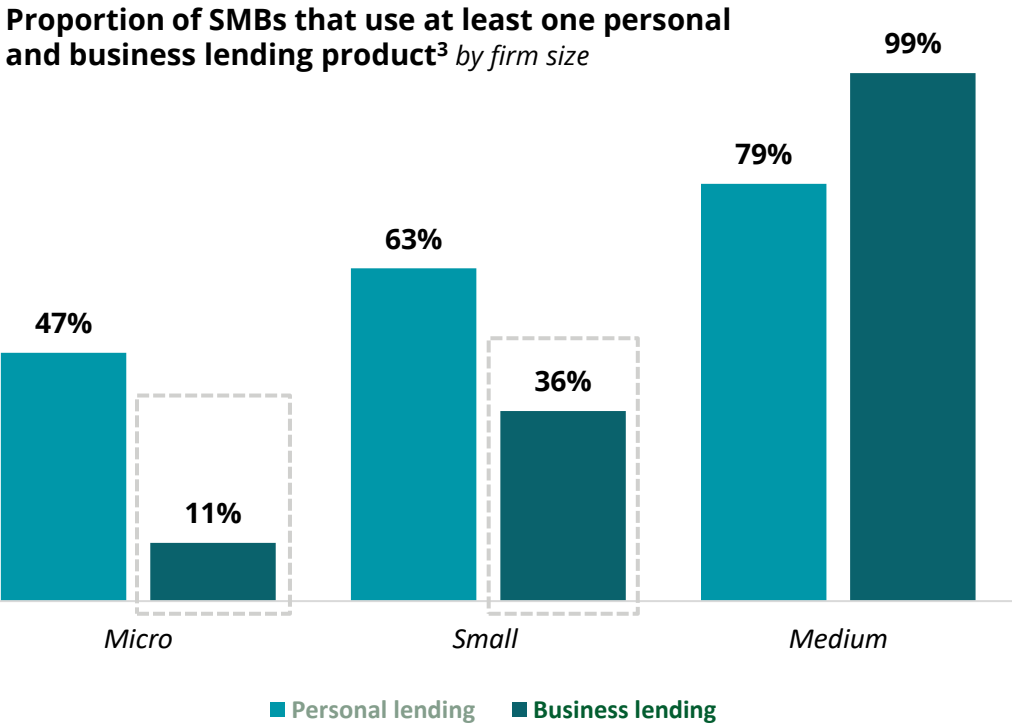
Small business product needs are less complex and easier to serve, and research shows they are undercapitalized with regard to business lending

SMB owners most often use basic deposits and credit products and supporting **money movement/fraud protection services** to help run their businesses. Product complexity increases with business size.



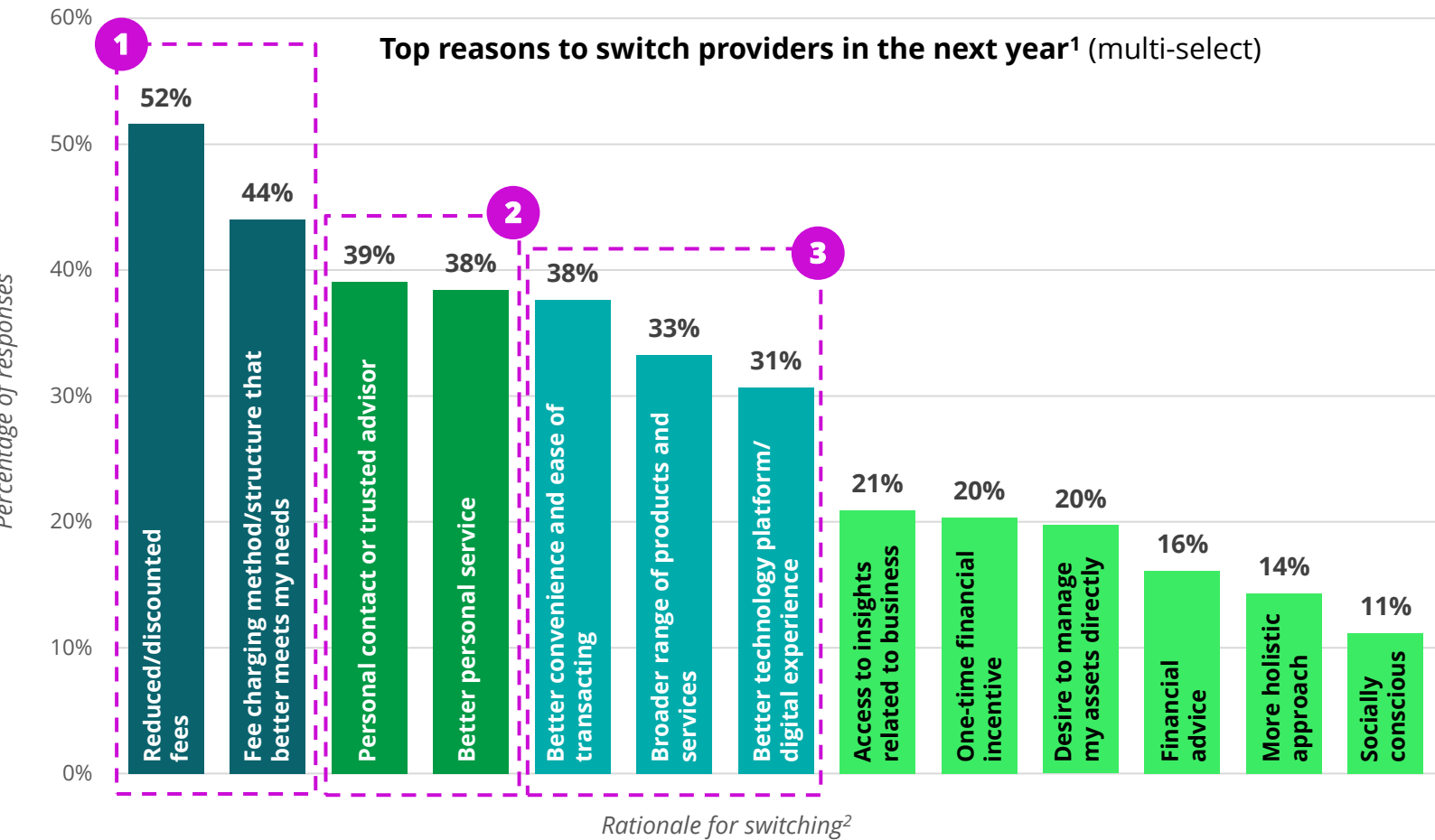
Note: Products selected by less than 10% of respondents are not captured here, e.g., invoicing, ACH origination, CDs, money markets, wire origination, lockbox services

Significantly lower percentage of SMBs use business lending products, suggesting that funding is a mix of personal and business accounts. **A clear market opportunity exists in providing funding support to small businesses** to capture and grow relationships as they scale.



¹Graph displays products selected by 10% or more respondents.
²Survey respondents were able to select multiple options; ³Includes credit cards.

Financial incentives are the primary rationale for owners to switch providers, though trusted relationships with better service closely follow



KEY CALLOUTS

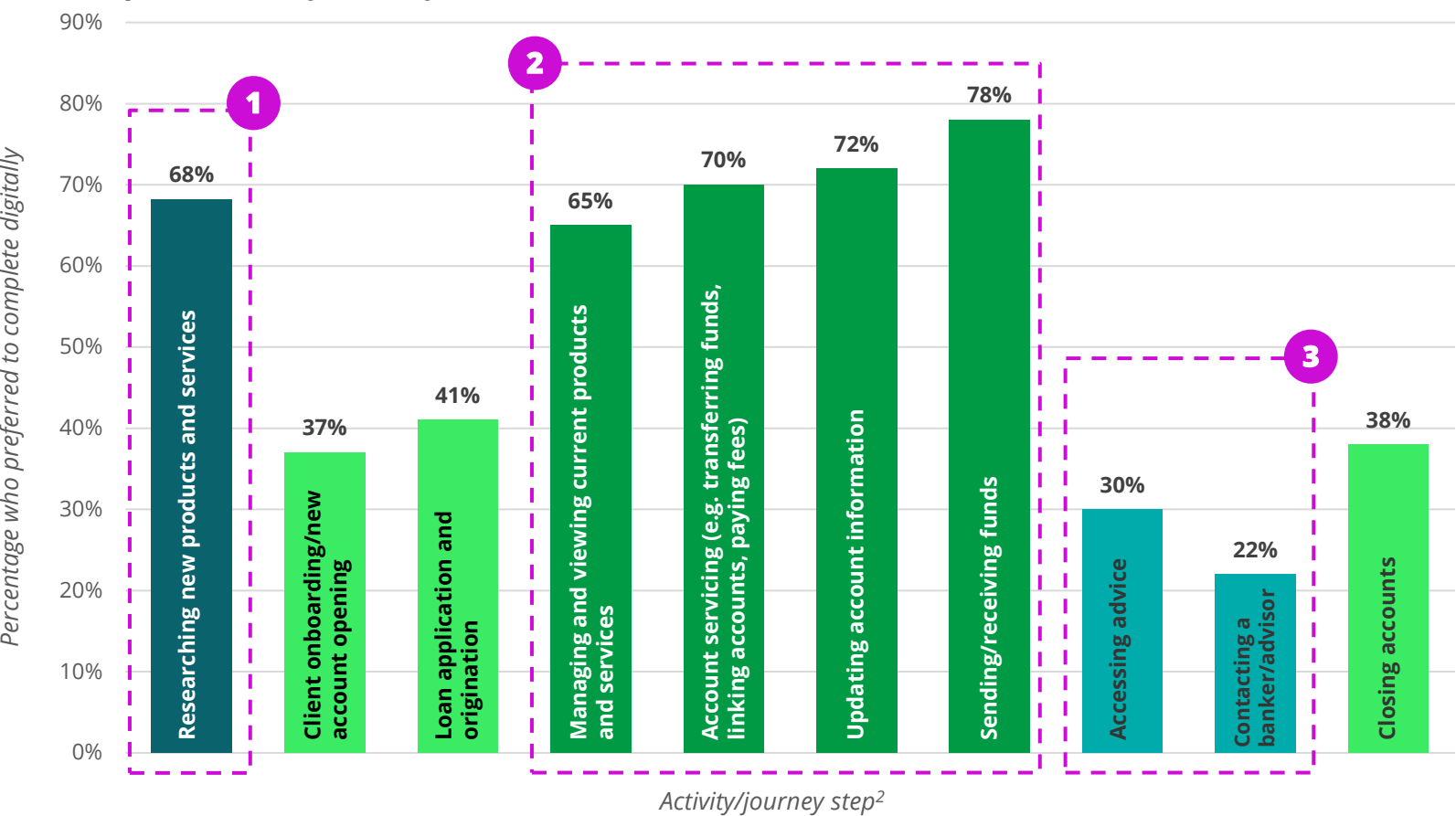
- ✓ **Financial incentives (e.g., reduced and discounted fees)** noted as the 1st and 2nd reasons why respondents would switch their banking provider; **1 in 5** also cited a one-time incentive as a motivating factor.
- ✓ A **relationship with a trusted personal advisor** and **better personal service** were the top switching reasons behind lower fees, **indicating a desire for Advise-type services** at the onset of new banking relationships.
- ✓ **Convenience, product set, and better technology platform/digital experiences** round out the top reasons, indicating some customers **desire an easier-to-use banking platform**.

¹Includes only responses selected by 10% or more respondents.

²Survey respondents were able to select multiple options.

Transferring funds, account updating and servicing, and researching products are the most preferred activities to be completed digitally

Channel preference by activity¹ (multi-select)



¹Includes only responses selected by 10% or more respondents.

²Survey respondents were able to select multiple options.

KEY CALLOUTS



Researching new products and services was highlighted as a preferred digital journey step, with 68% of respondents indicating they would prefer to conduct their research digitally rather than in person.



Managing and viewing current products and services, account services, updating account information, and sending/receiving funds were also prioritized by respondents to be done digitally, indicating a desire for a digital “Service” journey.



Accessing advice and contacting a banker were less highly prioritized as digital journey steps than others.

Over 80% of respondents would consider using a digital-only banking provider, although business owners raised needs for specific features & support

ATTITUDES TOWARD DIGITAL BANKS¹

> 80%

Would consider using a digital-only banking provider

57%

Prefer mobile app channel for day-to-day needs

48%

Businesses < 2 years old do not require branch services (“Never” or “Very Rarely” use)

CLIENT PREFERENCES FOR DIGITAL¹

61%

Efficient customer support channels (e.g., live chat/phone)

51%

Advice on business, e.g., suggesting new products and services as they grow

49%

Proactively inform of threats or suspicious activity

49%

Personalized dashboards displaying key financial metrics and insights

CONCERNS CONSIDERING A DIGITAL BANK¹

48%

Lack of physical presence (e.g., branches)

38%

Concern about inability to handle complex financial needs

32%

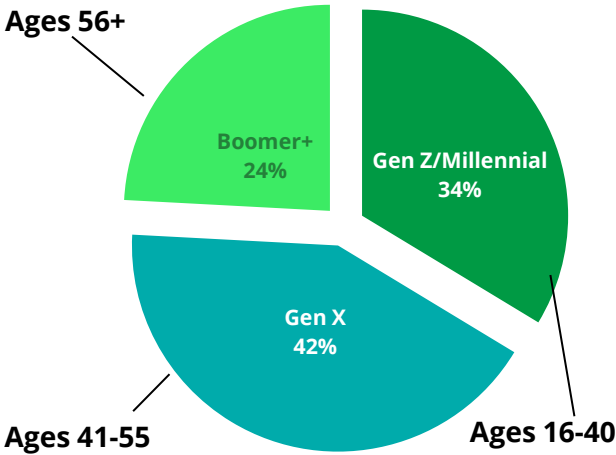
Lack of personalized service

29%

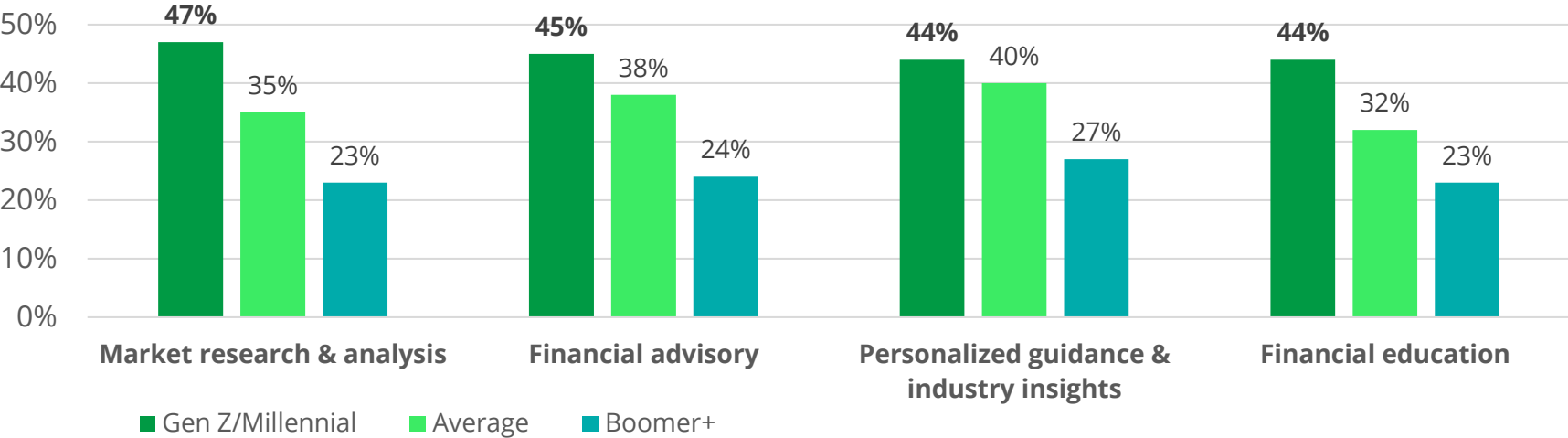
Safety and security of personal financial information

Gen Z and millennial business owners showed a greater preference for digital channels overall and are keenly interested in receiving advice

PARTICIPANTS BY AGE



“VERY INTERESTED” OR “WOULD SWITCH FOR” ADVISE SERVICES



GEN Z/MILLENNIALS WANT MORE PRODUCTS AND SERVICES DIGITALLY COMPARED TO AVERAGE...

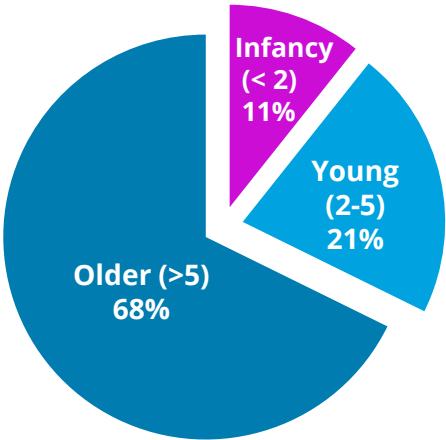
	Gen Z/Mil.	Average
Applying for new accounts	55%	46%
Applying for business loans or credit lines	58%	48%
Setting up automated bill payments	77%	68%
Setting up and managing payroll services	66%	54%

VALUE-ADD SERVICES ARE MORE USED OR MORE ATTRACTIVE TO GEN Z/MILLENNIALS THAN OTHER AGE COHORTS...

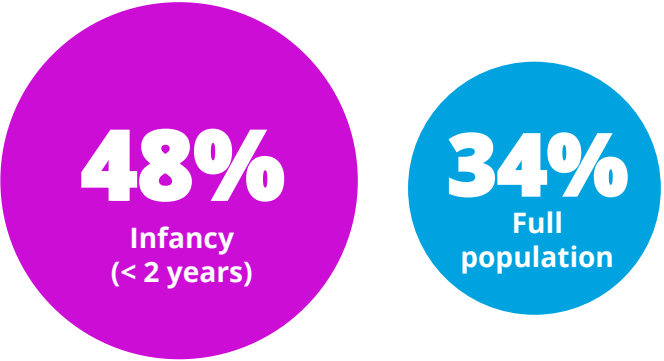
- **Online Payroll:** 29% vs. 22% overall bought in the last year
- **Invoicing Services:** 14% vs. 12% overall usage today
- **Accounting Services:** 43% vs. 32% overall very interested or would switch banks for
- **HR Support:** 39% vs. 24% overall very interested or would switch banks for
- **Business Insurance:** 42% vs. 32% overall very interested or would switch banks for

Businesses younger than 2 years old showed much greater alignment with digital bank attributes and less complex banking products

BUSINESSES BY AGE IN YEARS



"NEVER" OR "VERY RARELY" GO INTO BRANCHES



Businesses in their infancy were much more likely than average (13% vs. 4%) to switch for a digital bank with accounting services integration (e.g., QuickBooks)

FACTOR RANKINGS



OVERALL

Young businesses were much more likely than average to rank **features** as the No. 1 **MOST IMPORTANT** factor when entering a new banking relationship, beating pricing, service, and products (11% vs. 7%).¹



PRODUCTS

Businesses in their infancy ranked availability of other services (advice, lockbox, insurance, payroll, investments) **LEAST IMPORTANT** when entering new banking relationships much more often than the overall population (41% vs. 29%).



CONVENIENCE

Businesses in their infancy ranked "Convenience or number of branch locations" **LEAST IMPORTANT** much more than average (39% vs. 23%).

¹"Security/Trust in Brand" ranked #1 overall by full population

Respondents also envisioned their business bank of the future: A seamless, accessible, personalized, data-driven, and secure digital experience

We asked business owners to name one thing they want from the business bank of the future. Their answers highlighted five key themes:

1. SEAMLESS DIGITAL EXPERIENCE

"I envision the business bank of the future to be **relentlessly customer-focused**; it should **prioritize seamless digital experience**."

"I would want it to be a **digital bank** that is open to business owners and entrepreneurs that **not only provides banking services but education and business opportunities**."

2. EASY TO ACCESS

"**Personable** and **easy to access from my phone**."

"Full access to **all of my accounts in one place**."

3. PERSONALIZED AND TAILORED

"[I'd want it to be] **personalized**, and **care about my business** and how to **help it grow**—not just be a place where I store and invest my money."

"A completely **customizable experience and interface**, where I could **adapt my relationship with the bank** as my business adapts and changes."

4. DATA-DRIVEN

"I want a **highly tailored, data-driven** approach to financial services, because the **one-size-fits-all strategy is no longer effective**."

"I want it to have **data-driven insights** so that it can make **personalized recommendations to optimize financial decisions** and predict cash flow."

5. SAFE AND SECURE

"I'd want it to be **efficient, exceptionally safe and secure, and super easy to use!** I think that these qualities make a banking experience fulfilling and reassuring."

"A bank that offers **all products digitally** while still maintaining a **physical location to keep consumers feeling safe**."

**Our perspective
on how to win**



Winning will require acquiring share and depth of relationships via a clear proposition strategy, digital enablers, and differentiated experiences

1. Focus on business model and proposition components...



Data-driven segmentation

Continuing to invest in **data-driven customer analyses**, including identifying **business founder/owner behavior in retail clients** and **segmenting more meaningfully** within underlying attributes of demographics and communities.



Product mix, prioritization, and pricing strategy

Focusing on a tailored offering portfolio to **quickly capture deposits while de-risking your lending book** and implementing **relationship-based pricing** across retail and SMB accounts.



Revenue stream diversification

Mixing revenue elements and monetizing new products with a broader range of services that provide opportunity to deepen customer relationships—thus, revenue growth.



Technology, channel, and ops modernization

Designing and building **modern digital capabilities** via modular, configurable platforms with API-first architecture and associated **op and delivery model** that **enables cost and builds scalability**.

2. ...and build differentiated features to optimize engagement and experience



Financial and business education

Data-driven insights based on **financial behaviors** providing targeted guidance to enhance financial and business health.



Rewards and incentives

Monetary and other tactics to **increase value delivered to customers**, incentivize transacting, and increase stickiness (e.g., loyalty-based).



Marketplace offerings

Expanding financial and non-financial products/services offered by **seamlessly connecting third-party offerings** with varied experiences.



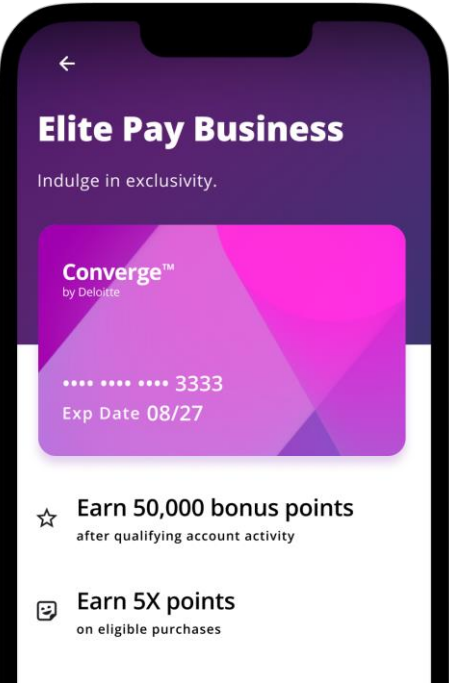
Product bundling

Enabling **increased product sales** via offering several **combined products** packaged at a lower unit cost than if they were to be sold individually.

Winners will need to focus on market-leading customer experiences that fuel brand recognition, increase the speed of innovation, and deliver best-in-class features to drive acquisition and share of wallet

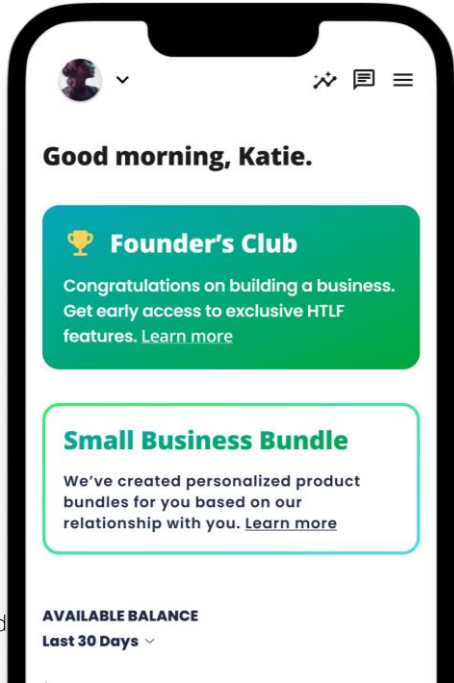
Dynamic product selection

Hyper-personalized product selection, bundling, and pricing options for retail and small business customers.



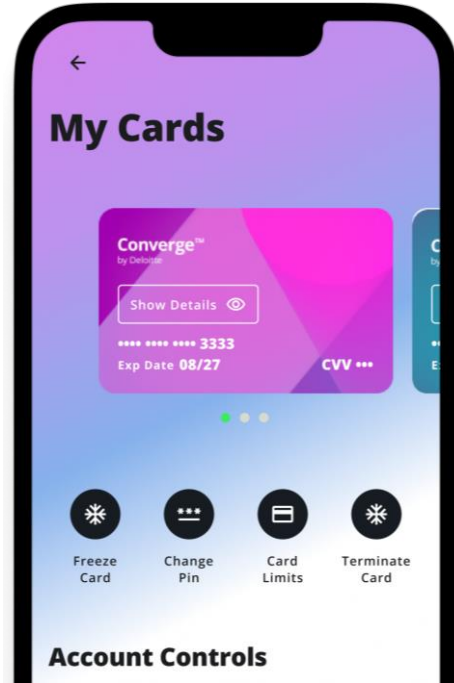
Intuitive dashboard

Configurable dashboard to surface account activity, insights, cross-selling, and engagement opportunities.



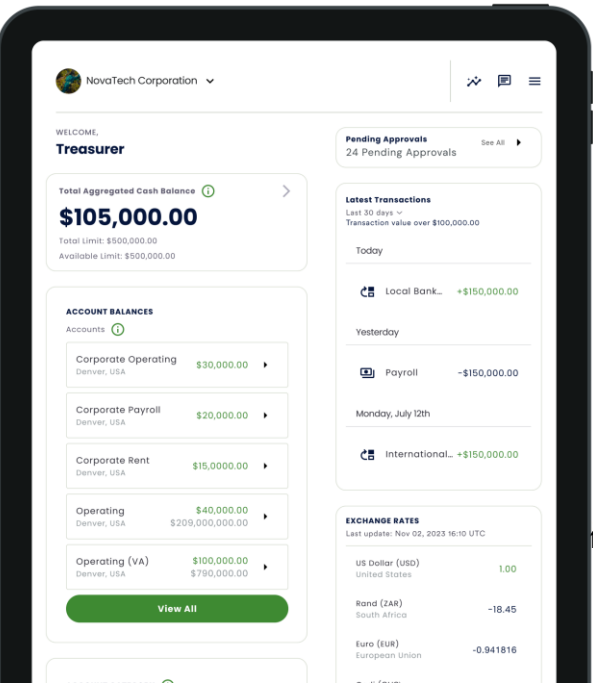
Smart card controls

Select; activation; freeze/unfreeze; report stolen, lost, or damaged physical card; and change PIN within your customer experience.



Contextual insights

Configurable engagement features to surface critical insights, facilitating portfolio management (e.g., cash flow management, treasury management) for commercial clients.



What needs to be true to define a winning SMB banking proposition

Customer desirability

- **Understanding market segment needs and desires** to define tailored product, service, and pricing to inform experience design that attracts target customers.
- **Identifying reliable areas to launch** and test offerings before scaling.
- **Designing key marketing and engagement moments** to amplify brand and product proposition.

Operational viability

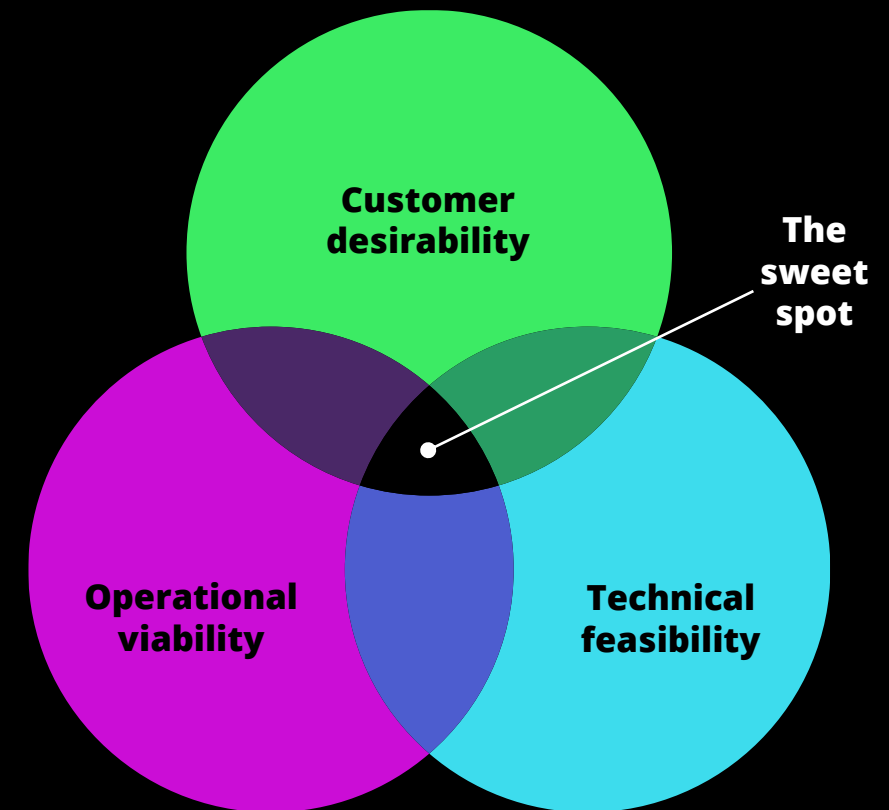
- **Identifying business and performance indicators** aligned to offerings to define revenue and profitability growth targets.
- **Determining cost and economic upside scenarios** to design and develop realistic GTM/product and service roadmaps and profitable activation strategies.
- **Considering value chain decision-making** to ensure viable distribution of ownership/control as the business scales.

Technical feasibility

- **Assessing platform capability needs** and establishing decision-making and ecosystem partnership management.
- **Identifying trade-offs needed to enable experience** while integrating with existing tech stack.
- **Evaluating necessary, ongoing strategic investments needed** (e.g., API modernization, new digital channels) to enable the long-term ambition.

¹Survey respondents were able to select multiple options

Successful transformations must balance desirability, viability, and feasibility



Want to know more?

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Thank you!

A decorative graphic on the right side of the slide. It features two overlapping circles: a light blue one in the lower-left and a light green one in the upper-right. A diagonal band, transitioning from light blue to light green, runs from the top-left towards the bottom-right, passing behind the circles.

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