

Revenued SMB Banking Survey:

# Competing for SMBs: The Demand for Low-Cost Solutions in Digital Banking



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## **Revenued SMB Banking Survey: March 2024**

If we could read the minds of our small business owners, we would have been able to predict their banking habits and the reasons behind them. But real data is not always in line with widespread assumptions. That's what we at Revenued discovered when we conducted a recent survey and heard from 100 SMBs, revealing insightful patterns in their banking behaviors.

Banking options for SMBs in the United States span a broad spectrum, from large national banks with extensive branch networks and significant marketing presence to small local banks and cutting-edge online/digital fintech platforms. While more than half of the customers we polled continue to rely on large banks, there is a noticeable trend towards smaller online digital banks gaining traction.

Emerging online digital banks are proving to be attractive to SMBs particularly due to low-cost/ zero-fee checking products. Additionally, some banks are able to offer high yields on checking account balances, a feature highly-valued by SMBs seeking to maximize returns on their deposits. Just as important, the survey also reveals that SMBs seek tailored lending solutions as many continue to be underserved by large banking institutions.

Despite the fintech sector's push to integrate advanced features like tax and account reporting tools into their offerings, our survey indicates a lukewarm interest among Revenued customers for such integrations with their banking services. The survey also highlights a trend among SMBs to either outsource their accounting and tax services or handle them in-house with software solutions, rather than expecting these services from their banks.

Furthermore, the data indicates that nearly half of SMBs utilize multiple bank accounts, and about a third are considering evaluating other banking options. This shows an openness within this market to switch or diversify banking services. We see this as a new opportunity for the development and growth of differentiated, purpose-built banking platforms aimed at better serving this traditionally underserved segment of the sector.

Ultimately, the challenge for emerging online digital banks will be whether they can provide a comprehensive suite of solutions consisting of low-cost, no-fee fees alongside competitive APY on checking account balances, all while offering convenient digital access and a range of loan product offerings. This balance between cost-effectiveness and comprehensive service offerings will be the key for emerging banking players to effectively compete with larger institutions and establish themselves as viable alternatives for SMBs.

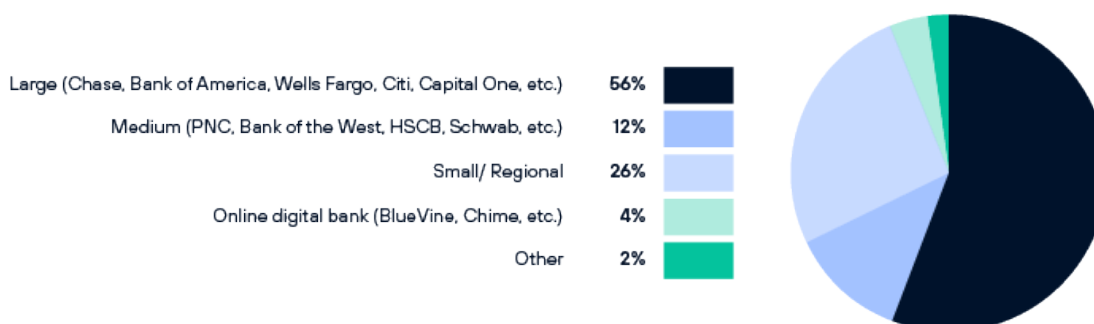
### **Approach**

This report is based on a survey response of 100 Revenued customers. The survey was aimed at shedding light on SMB banking behaviors and the underlying reasons for their choices. This feedback helps Revenued's product development, ensuring that we align our offerings with the actual needs and preferences of our users. This exploration into the banking habits and preferences of Revenued customers not only offers a glimpse into the current state of SMB banking but also provides a compass for future banking innovations and services tailored to the needs of SMBs.

## Survey Results in Depth

### 1. Size of bank

#### What size business bank do you currently use?



The largest segment of respondents, representing over half, use large banks. Small/ regional banks are used by nearly a quarter of the respondents, online digital banks by a small percentage, and a minority fall into the 'Other' category. The data from our recent survey indicates current banking preferences among small and medium-sized businesses (SMBs). Of those surveyed, 56% currently bank with large national institutions. This indicates a strong preference for banks with extensive branch networks and a wide array of services, suggesting that reliability and accessibility remain critical factors for the majority of SMBs.

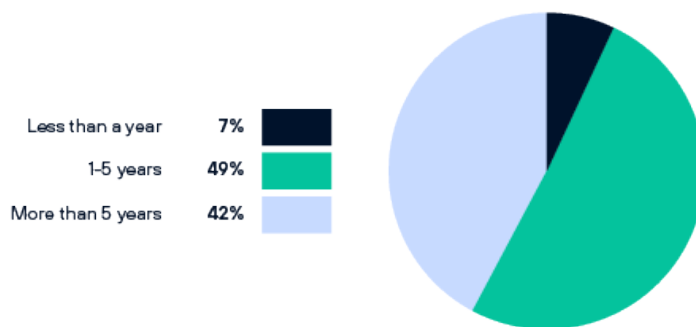
Meanwhile, small and regional banks serve 26% of respondents, highlighting that a significant portion of SMBs values community presence and potentially more personalized banking relationships. This segment reflects a commitment to local banking institutions, which are often perceived as more closely aligned with the needs of smaller businesses.

The adoption of online digital banks stands at 4%, which, while more modest, indicates a growing interest in innovative and tech-driven financial services. This figure points to a segment of SMBs that are comfortable operating in a digital-first environment and are perhaps more adaptive to technological advancements in banking. This is intriguing, as a few years ago, there were no significant players of scale. Recently, we are starting to see signs of digital bank adoption.

Finally, the 'Other' category encompasses 2% of responses. This diverse group may include businesses using niche banks or those that have unique banking requirements not typically met by traditional banking models. It suggests a degree of fragmentation where specific needs drive the search for more tailored banking solutions.

## 2. Years of Operation

### How long has your business been operating?

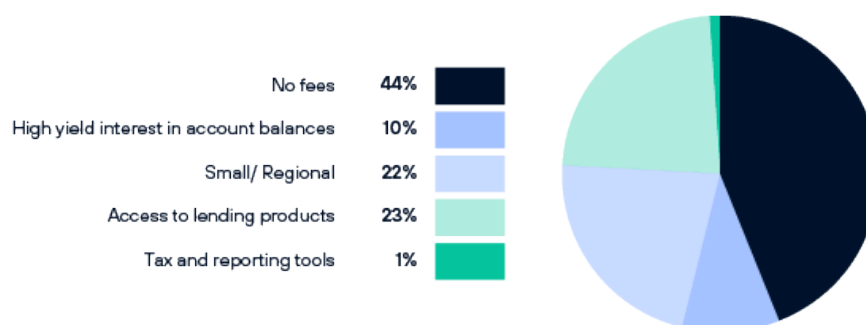


This question was asked to understand the operational age of the businesses surveyed. The majority, at 51%, had been in operation for one to five years, indicating a survey population primarily composed of relatively established businesses that have moved beyond the startup phase. Close behind, 42% of businesses have been operating for more than five years, showcasing a seasoned group with substantial experience in their respective markets. A small portion, 7%, represents businesses that are less than a year old, reflecting the newest entrants into the business world.

This distribution suggests that the surveyed group has a strong foundation of operational experience, with nearly all respondents having at least a year of business activity. This could imply a level of stability and resilience among the participants, which may influence their banking preferences, strategic decisions, and market behavior.

### 3. Checking account factors

#### What is most important when evaluating a business checking account?



This chart aligns with our survey findings, highlighting the appeal of emerging online banks due to no fees, high yields on balances, and access to lending products. Cost is a critical factor for businesses selecting a checking account, with nearly half prioritizing no fees, underscoring a shift towards reducing overhead and enhancing efficiency. Data from over 20,000 active SMB bank connections by Revenued reveals that small businesses pay an average of \$700 in banking fees annually, often incurred by traditional banks. Consequently, an increasing number of small businesses are opting for digital banks to bypass common charges like NSF fees and overdraft fees.

Earning interest on account balances emerges as a pivotal consideration for a substantial proportion of respondents, indicating a swing towards viewing checking accounts not merely as platforms for day-to-day transactions but also as vehicles for accruing passive income. This is particularly pronounced with emerging digital banks like BlueVine, which distinguish themselves by offering interest rates potentially up to fifty times the national average.

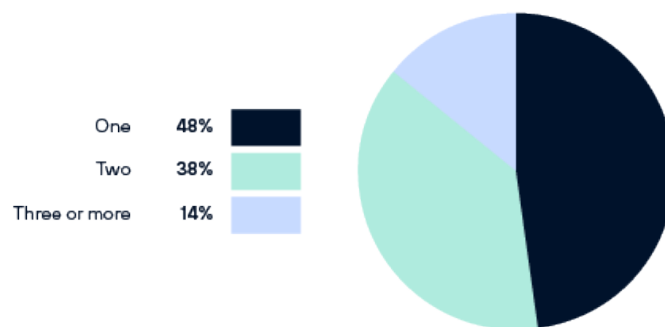
Nearly a quarter of survey participants emphasized the importance of lending products, showing that SMBs are still not adequately served by traditional, large banks in terms of working capital access. This scenario presents a clear opportunity for smaller regional and digital banks to gain market share and attract customer deposits by offering lending services, a niche where large banks have historically not been profitable due to their prioritization of larger enterprise customers.

Online banking capabilities, though valued by the fewest respondents, still represent an important aspect for some businesses, potentially those who prioritize convenience and digital accessibility.

Overall, the data implies that businesses tend to focus more on the financial benefits and products associated with their checking accounts rather than just the digital features, which might be considered a basic necessity in today's market.

## 4. Quantity of banks for business

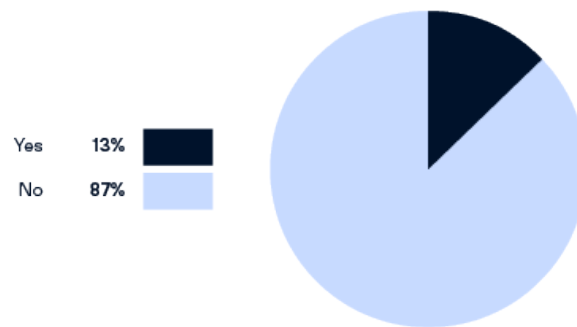
**How many banks do you currently use for business purposes?**



This question provides an insight into the banking habits of businesses. Almost half of the businesses surveyed rely on a singular banking relationship, which could indicate a preference for simplicity or satisfaction with the services provided by their primary bank. On the other hand, nearly 40% of respondents spread their banking needs across two institutions, perhaps to diversify their financial services or to take advantage of different offerings. A smaller segment engages with three or more banks, which could suggest these businesses have more complex banking needs or a strategy to maximize benefits and minimize risks by not relying on a single financial partner. Overall, the results reflect a diverse range of banking practices among businesses, indicating varying levels of complexity and need for financial services.

## 5. Changes in primary bank institution

**Have you changed your primary business banking institution in the past year?**

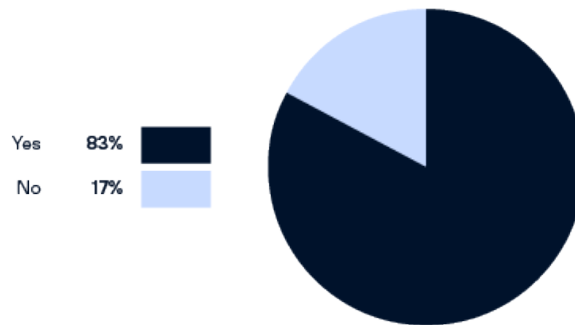


Participants were asked if they had changed their primary business banking institution in the past year. A small minority of 13% answered 'Yes', indicating they have changed their banking institution, while the vast majority, 87%, answered 'No', suggesting they have stayed with the same primary business banking institution. This could imply a high level of customer retention for business banks over the past year among the surveyed group or a low market volatility in terms of business banking relationships. It might also reflect the inertia or the high switching costs associated with changing banks for businesses.



## 6. Satisfaction with bank convenience

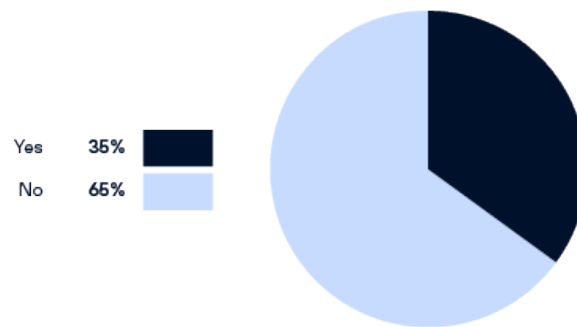
**Are you satisfied with your current bank's accessibility and convenience?**



A significant majority of 83% expressed satisfaction, while a smaller fraction of 17% indicated they were not satisfied. This suggests that the vast majority of the respondents find their bank's services accessible and convenient, which could be a reflection of effective customer service policies, a comprehensive branch and ATM network, or efficient online banking platforms. The dissatisfaction percentage could represent areas where the bank might need to improve, such as extending hours, improving online banking experiences, or increasing the number of physical locations.

## 7. Plans to change primary bank

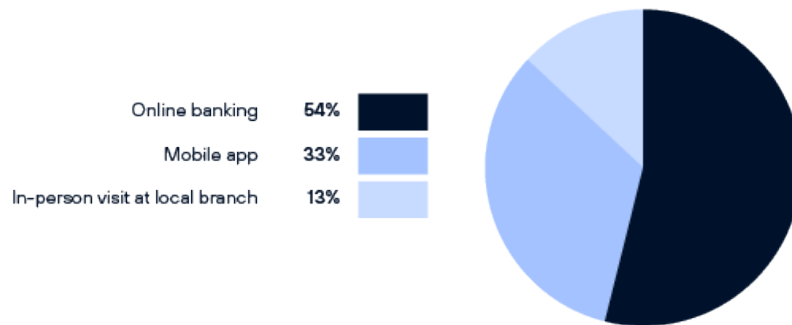
**Are you considering changing your primary business banking institution?**



More than a third of the respondents indicated that they are contemplating a change, while the majority are not considering such a move. This level of potential change is significant and suggests a state of flux or dissatisfaction for a sizable minority. Reasons for considering a change could include seeking better rates, more services, improved customer service, or other factors like mergers and acquisitions in the banking industry that may affect customer loyalty or satisfaction. Businesses often weigh the benefits of better offerings against the costs and effort required to switch banks, which can be considerable.

## 8. Primary bank transaction channels

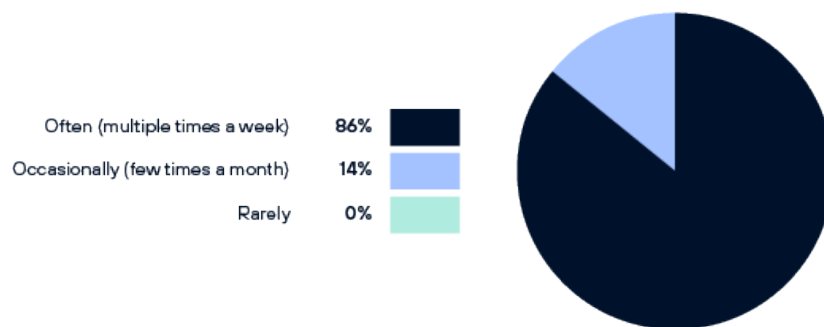
### Which banking channels do you primarily use for your business transactions?



A majority prefer online banking, indicating that ease of access and, perhaps, the comprehensive functionality of online banking platforms are highly valued by businesses. Mobile app usage is also significant at 33%, suggesting a strong adoption of mobile banking services, which offer convenience and flexibility for business owners on the go. Only a small portion, 13%, primarily visit a local branch in person, which may reflect the broader banking industry trend towards digital services and away from traditional brick-and-mortar banking. This data can be insightful for banks as they consider investing in and improving their digital platforms to cater to business customers' preferences.

## 9. Frequency of bank activity

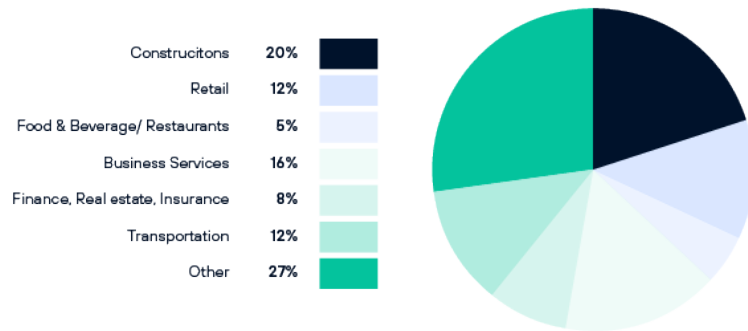
**How frequent do you engage in banking activities (deposits, withdrawals, transfers, etc.)?**



A significant majority (86%) report engaging in banking activities often, which implies multiple times a week. This suggests that the majority of respondents are highly active in managing their business finances, potentially reflecting robust business operations that necessitate frequent transactions. Only 14% engage in banking activities occasionally, indicating a smaller portion of the sample manages transactions a few times a month. Interestingly, no respondents selected the option to engage in banking activities rarely, which would indicate only a few times a year. The absence of this category could be due to the nature of businesses that need to make regular transactions to maintain their operations, or it could suggest that the sample does not include businesses that operate on a seasonal or infrequent transaction basis.

## 10. Business industry

### Which industry best describes your business?



The largest industry segment of survey respondents belongs to Construction, at 20%. Business Services also have a noticeable representation at 16%. Retail and Transportation businesses are equally represented at 12%. Finance/ Real Estate/ Insurance and Food & Beverage/ Restaurants are also represented with 8% and 5%, respectively.

## Conclusion

Drawing on the insights from this report, it's evident that large banks continue to capture the lion's share of the SMB market. However, while large banks have traditionally dominated the SMB sector, the landscape is gradually shifting to favor smaller, more agile players. The key findings highlight that a significant portion of the SMB sector still finds value in the offerings of emerging online and regional banks, especially in factors such as accessible lending products and fee structures. This alignment suggests that digital banks and smaller financial institutions are well-positioned to meet these specific needs.

Furthermore, the data indicates that nearly half of SMBs utilize multiple bank accounts, and about a third are considering evaluating other banking options. This shows an openness within this market to switch or diversify banking services. We see this as a new opportunity for the development and growth of differentiated, purpose-built banking platforms aimed at better serving this traditionally underserved segment of the sector.

The readiness of SMBs to seek alternatives reflects a broader potential for emerging online banks to innovate and capture market share by providing low-cost banking services alongside competitive APY on checking account balances, all while offering convenient digital access and a range of loan product offerings. This balance between cost-effectiveness and comprehensive service offerings will be the key for emerging banking players to effectively compete with larger institutions and establish themselves as viable alternatives for SMBs. This shift invites a deeper conversation about the future direction of banking services, emphasizing the critical role of innovation and adaptability without compromising on traditional customer satisfaction benchmarks in the banking industry.



Founded in 2020, Revenued serves as a trusted fintech resource that helps small businesses simplify financial management. It leverages advanced technology and underwriting to offer flexible terms and the industry's fastest response times for SMBs. Revenued believes these enterprises deserve a spending limit that grows with their revenue in real-time — that's why we created the Revenued Business Card + Flex Line, a solution built for all businesses, including those with subprime credit. Learn more at [www.revenued.com](http://www.revenued.com).

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