



Revenued

Understanding the Financial Pulse of SMBs:

A Deep Dive into Recent Banking Data

November 2023



Table of Contents

- Understanding the Financial Pulse of SMBs: A Deep Dive into Recent Banking Data.....3
- Background of the Analysis.....4
- Total Deposit Volume: A Window into Revenue Streams.....5
- Average Number of NSF (Insufficient Funds) Transactions: Managing Financial Health.....6
- Average Daily Bank Balances: Gauging Financial Stability.....7
- Business Funding Activity: Exploring Growth and Investment.....9
- Revenued’s SMB Health Index Reaches Post-Pandemic Highs.....11
- About and Contact.....12

Understanding the Financial Pulse of SMBs: A Deep Dive into Recent Banking Data

The [33.2 million SMBs](#) in the United States make up the overwhelming majority of American businesses. According to the SBA, [99.9% of US businesses are SMBs](#), employ nearly half of private sector employees, and account for 40% of private sector payroll. The financial health of SMBs can serve as a valuable indicator of the broader economy's health.

SMBs often react more swiftly to economic shifts than larger corporations, making them sensitive barometers of economic conditions. When SMBs thrive, it often signals economic growth, increased employment, and consumer confidence. Conversely, financial struggles among SMBs can be an early warning sign of economic downturns.

As a fintech with a machine-learning SMB credit model based on predicted future revenue, Revenued continuously analyzes the real-time banking data of its current and would-be clients. Drawing on a swiftly growing client base, Revenued finds itself with the unique asset of a real-time monitor on the pulse of the SMB industry.

The Revenued SMB Health Index rose again in Q3 and reached post-pandemic highs in September 2023. Strong business revenue growth reflected in total deposit volume alongside a steady uptick in cash reserves were leading drivers of continued growth. Strong management of cash flow remains critical to the sustained growth and viability of SMBs. Many have started to experience margin compression due to rising costs of goods and services and tightening in the credit markets, which impacts access to working capital.

Background of the Analysis

The banking data analyzed in this study was aggregated from more than 20,000 American small businesses across multiple sectors. We have highlighted some trends in specific industries, including professional services, construction, home improvement, transportation, and the restaurant industry.

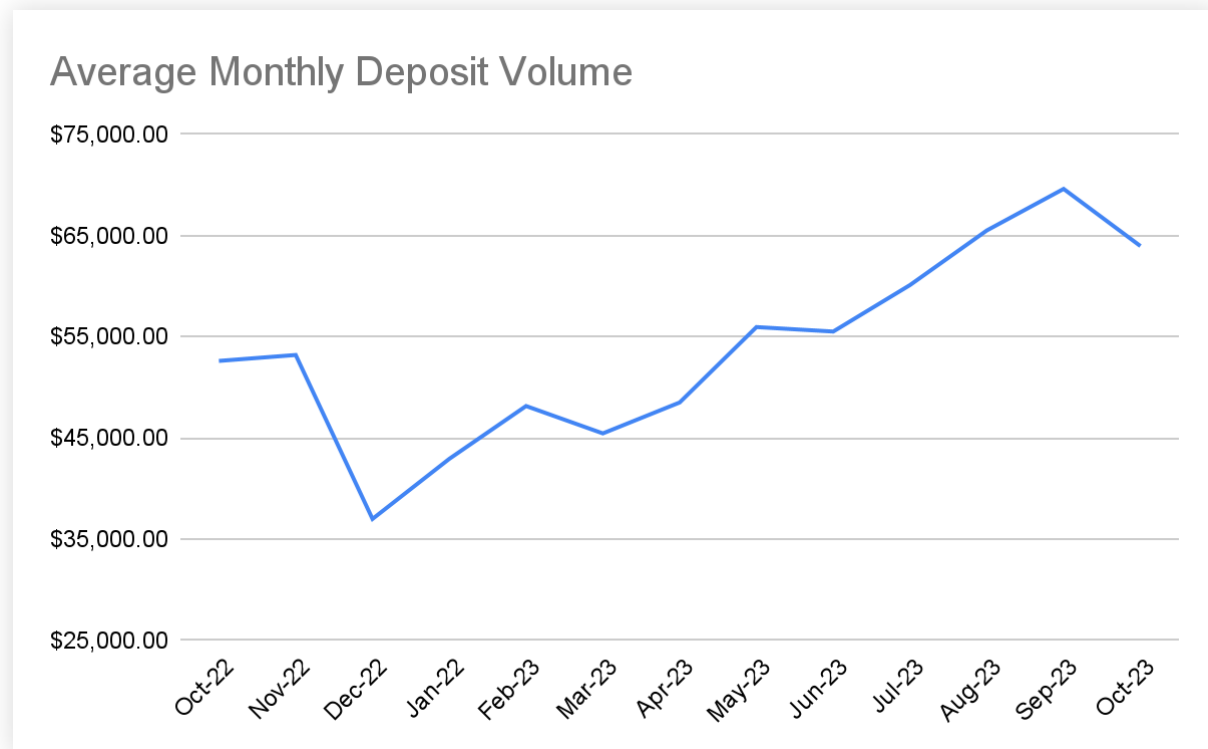
Four measures of business health are tracked:

- Total Deposit Volume
- Average Daily Bank Balance
- Average Number of NSF Transactions
- External Cash Flows by Capital Providers Volume

The four measures were looked at individually and also assigned weights to create an aggregate financial health score.

Total Deposit Volume: A Window into Revenue Streams

The first measure, Deposit Volume, includes only deposits that reflect actual business activity. Deposits from external capital sources were excluded from this metric, enabling it to serve as a proxy for revenue. In the aggregate financial health score, Total Deposit Volume was assigned a weight of 65%.



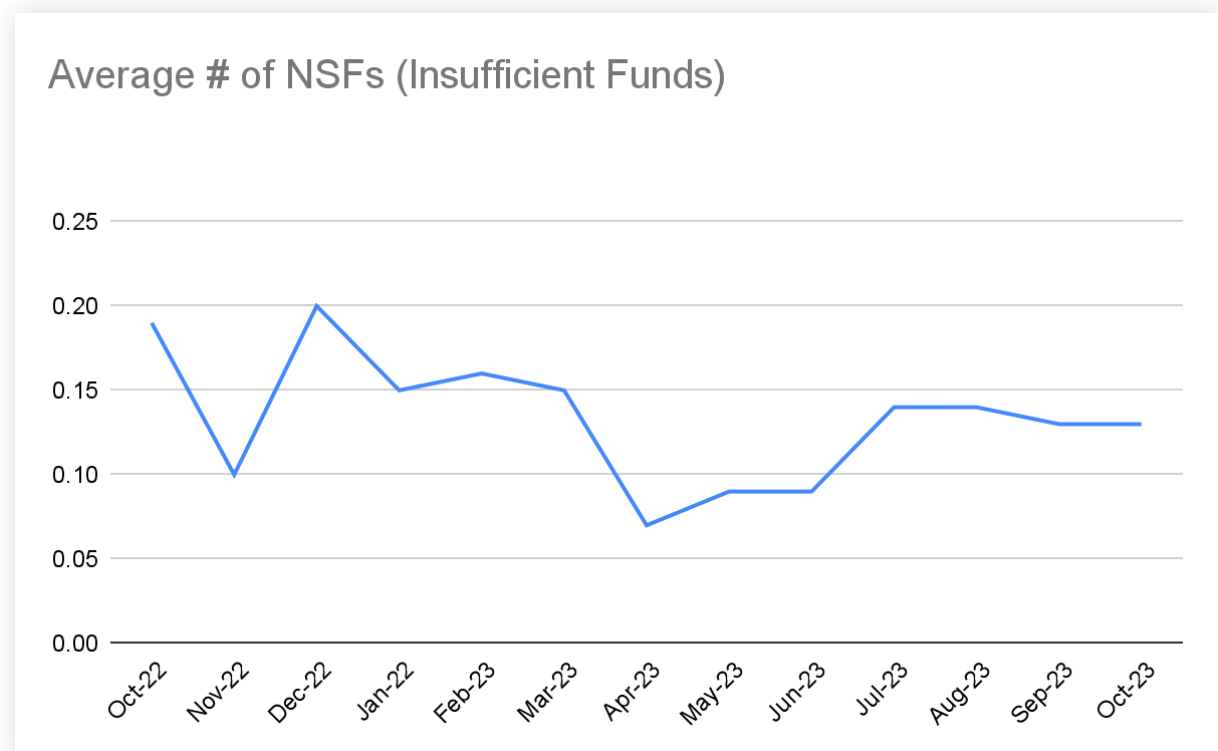
Total Deposit Volume began at around \$53K in October 2022, sinking to \$37K in December 2022 and then rising slowly throughout the year with a peak in September 2023 at \$70K.

Q3 2023 saw monthly deposits hit a post-pandemic high, indicating business and revenue growth. Many new businesses that started after the COVID-19 pandemic and had access to affordable capital (e.g. government grants and subsidies) have seen significant growth. With signs of an improving economy, SMBs are increasingly more comfortable with taking advantage of growth opportunities. Specific sectors that have seen significant growth include financial services, short-term rentals and property management.

Although promising, higher deposit volume may also indicate increased revenue without indicating increased profit. [The global surge in inflation](#) that started in late 2021 (and continues, albeit at a reduced rate) has driven up the cost of supplies, which has led to SMBs increasing pricing on their goods and services.

Average Number of NSF (Insufficient Funds) Transactions: Managing Financial Health

The second measure, the Average Number of NSF (Insufficient Funds) Transactions, gives the average of NSF transactions per merchant in the period specified (here, per month). A high number of NSF transactions may suggest that the organization is struggling with cash flow issues or has inadequate funds to cover its expenses, which can be a sign of financial stress. In the aggregate financial health score, the Average Number of NSF (Insufficient Funds) Transactions was assigned a (negative) weight of -10%. A rise in NSFs for an entire portfolio may indicate a signal for general economic distress for SMB and is often a leading indicator for rising defaults.



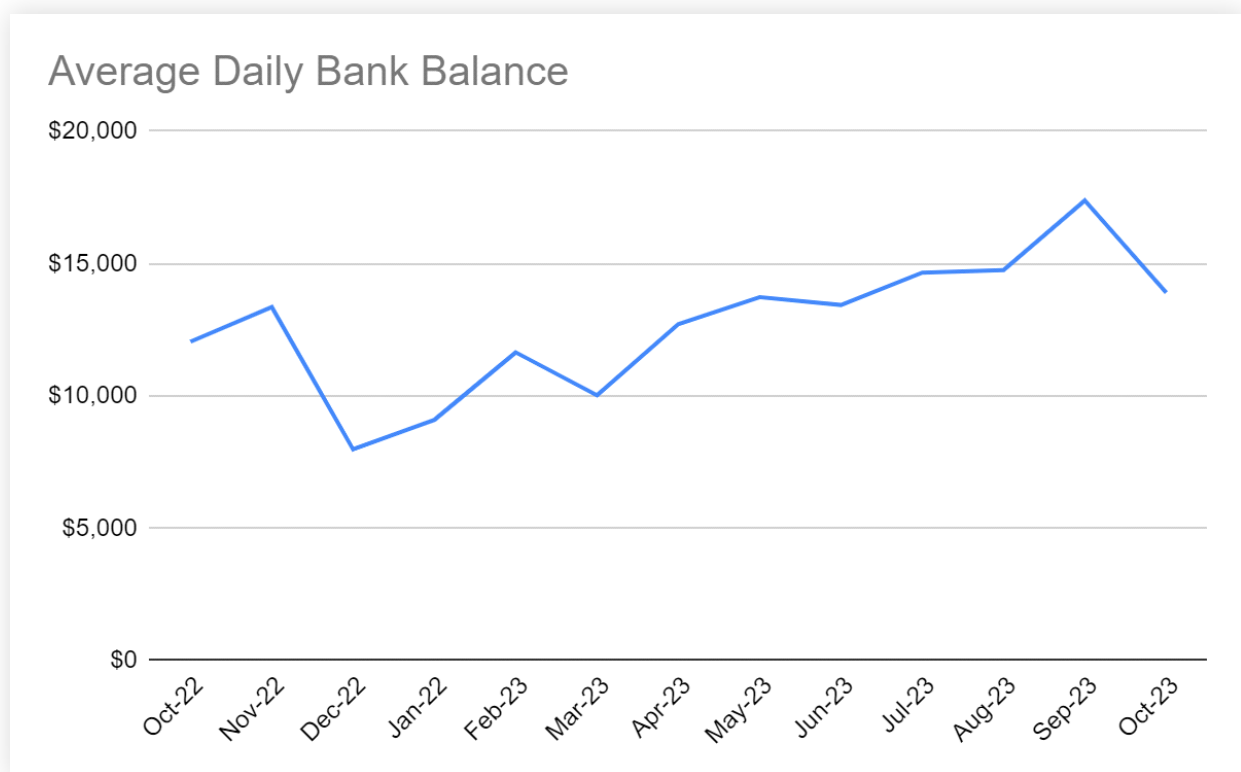
The average Number of NSFs began at 0.19 NSF transactions per business in October 2022, hitting a high of 0.2 in December 2022 and then dropping in Q2 2023 before rising again (although not to its previous highs).

Revenue growth from prior quarters is a likely cause for the reduced average number of NSF transactions. It may also indicate better financial management and planning.

While not directly tied to the number of NSFs, it is worth noting that updates to NSF fee practices by many banks and credit unions ([many have eliminated NSF fees entirely](#)) have helped SMBs financially.

Average Daily Bank Balances: Gauging Financial Stability

The third measure, Average Daily Bank Balance, looks at the balance in the SMB's banking account from day to day. Fluctuations in the average daily bank balance provide an idea of the financial stability of the business. In underwriting an individual business, greater insight can be had by comparing the average daily bank balance to the SMB's operating costs. In the aggregate financial health score, the Average Daily Bank Balance was assigned a weight of 25%.



Average Daily Bank Balance began at around \$12K in October 2022, sinking to \$8K in December 2022 and then rising slowly throughout the year with a peak in September 2023 at \$17K.

This increase in daily bank balances is likely driven by increasing revenue, as also indicated by the Total Deposit Volume (above). As cash reserves continue to build, SMBs are seeking opportunities to capitalize on growth and expansion with improving economic conditions.

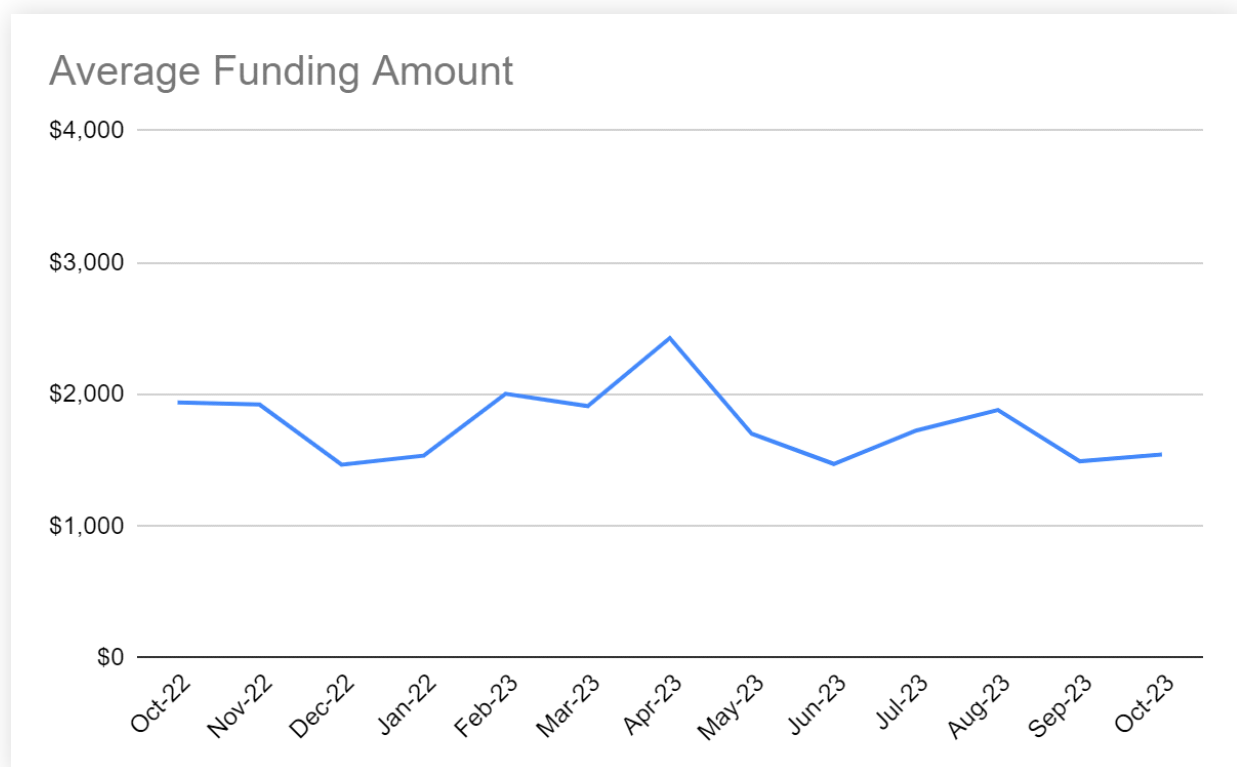


Despite the increase in daily bank balances, however, the average SMB still holds less than one month of cash buffer in reserve. Higher prices for goods and supplies, together with customers wanting longer payment terms, impact both the balance itself and how far the reserves will stretch. This is especially true in industries such as the construction and manufacturing sectors.

Business Funding Activity: Exploring Growth and Investment

The fourth measure, Average Funding Amount, is the average amount coming into the account from lenders (excluding funds provided by Revenued). An increasing number of SMBs require capital both to expand and to service existing customers, especially considering longer net payment terms.

Access to capital is positive. An SMB receiving large amounts of outside funding and investing in a growth strategy should count that funding toward its financial health and stability. In addition, for an SMB using outside funding to make payroll and cover operating costs, higher amounts of funding count indicate financial resiliency in being able to access emergency funds. Average Funding Amount was assigned a weight of 20% in the aggregate financial health score.



The Average Funding Amount began at around \$2K in October 2022 and only reached that point again in April 2023. Otherwise, average funding remained at \$2K or below throughout the past year.



Drops in average funding amounts may be tied to [tightening lending criteria](#) and qualifications. Access to loans, whether they be term loans, lines of credit, or MCA, has become tougher. The increasing presence of fraud in the marketplace has only contributed to lenders' reluctance to lend.

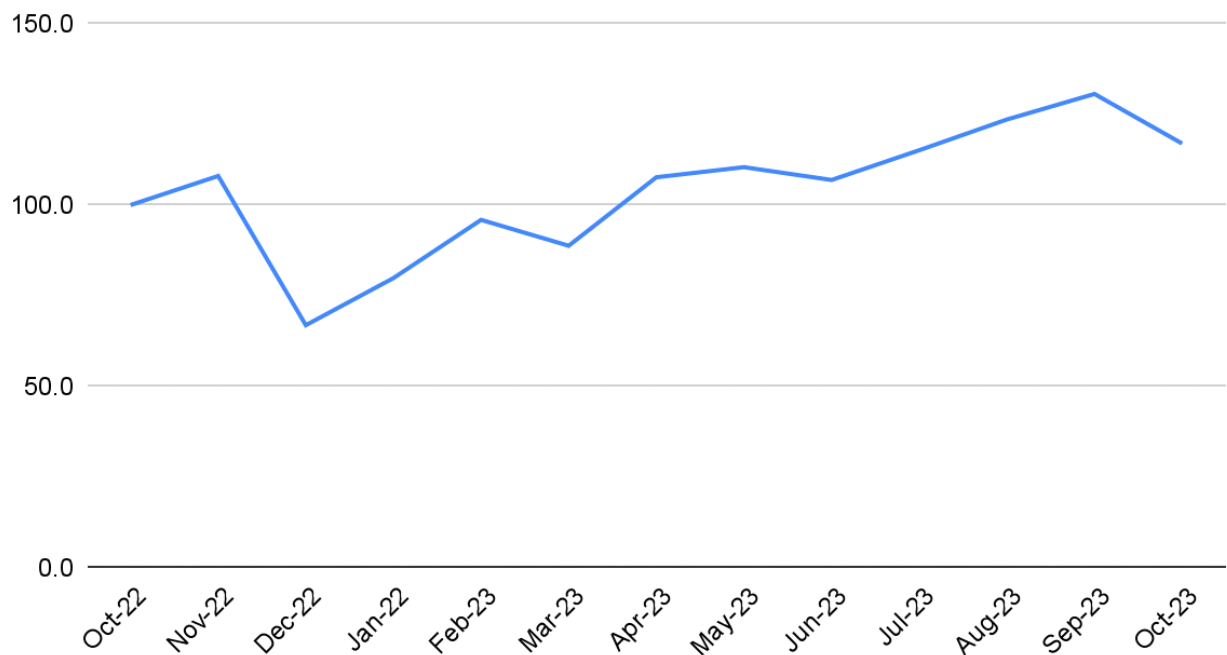
One bright spot for SMBs in the e-commerce sector is platforms like Revenued, Shopify, and Square Capital. They have made it much [easier for merchants to access working capital](#) by using alternative credit scoring.

Revenued's SMB Health Index Reaches Post-Pandemic Highs

The Revenued SMB Health Index uses the banking data of SMBs in the U.S. across all sectors and is updated quarterly. The Index's primary benefit is its focus on small businesses, often underrepresented in economic data. Little is known about businesses with less than \$1 million in annual revenue, and most available data is only years old.

Revenued's SMB Health Index rose again in Q3 driven by strong revenue growth and cash flow generation. However, continued margin compression due to rising costs of goods and services and tightening in the credit markets leave many SMBs cautiously optimistic in an uncertain macro environment. Despite these headwinds, growth in average daily bank balances over the past quarter is a positive signal of cash flow management and we anticipate continued growth in the Revenued SMB Health Index in Q4.

SMB Health Index





Revenued

Get in Touch With Revenued

Revenued is a portfolio company of Basepoint Capital a leading credit fund based out of New York, NY. It leverages advanced online technology and underwriting to provide flexible terms and the fastest response times in the industry for small business owners. As leaders in financial technology, we want you to have the same sophisticated powerful tools we do. We believe you deserve a spending limit that grows with your business revenue in real-time, that's why we built the Revenued Business Card + Flex Line – a card built for all businesses, including those with subprime credit.

Get in Touch with Us!



David Newman

Head of Business Development

david.newman@revenued.com