Aite Novarica

DECEMBER 2021

SMALL-BUSINESS BANKING AND MILLENNIALS

BANKING ON CHANGE

GILLES UBAGHS

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Q2

IMPACT REPORT

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- A Q3 2021 survey of 1,002 small and midsize businesses (SMBs) shows stark differences in what baby boomer- and senior-, Generation X-, and millennial-operated businesses want from their financial service providers. The differences suggest banks need to do more.
- Millennial-run SMBs are more likely to bank with credit unions and alternatives than are older-age cohorts. Of these businesses, 70% report they currently work with a nonbank fintech provider.
- Millennial-run businesses are more likely than older-age cohorts to switch their bank provider and to hold more accounts across multiple financial institutions. Millennial-run SMBs are not afraid to shop around for what they need, and they want their banks to be their partners.
- Technology is very important to millennial-run SMBs, with 64% saying they use new technology as soon as it's available. This compares to 14% of baby boomers and seniors.
- Millennials are far more comfortable using chat and chatbot functionality to communicate with their banks.
- Millennial-run businesses want their banks to partner with fintech providers to drive best-in-class solutions.
- Value-added services delivered by their bank are of great interest to millennial-run SMBs across all service areas, and they are willing to pay for these services.
- Online small-business banking is a critical pain point for many millennial-run SMBs. They feel challenged by not having enough business functionality, poor cash positioning visibility, and a lack of data portability and integration with their back-office platform.
- All aspects of service and functionality are important to millennials' continued use of their banks. Contrary to expectations, millennial-run SMBs also place a greater level of importance on having a personal relationship with their bankers than do baby boomers and seniors.

INTRODUCTION

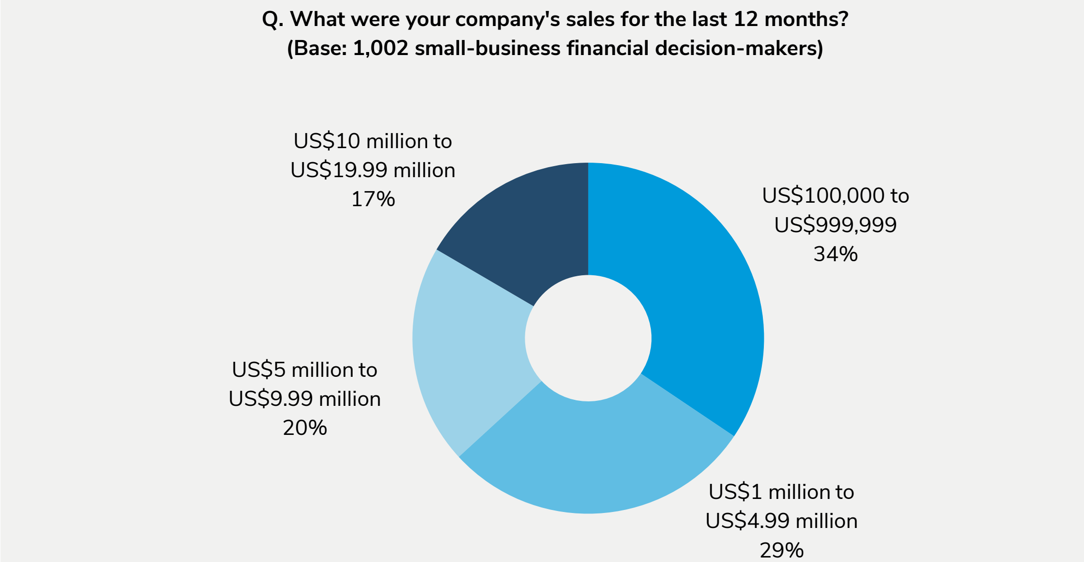
More than media cliches about entitlement and avocado on toast or dismissive calls of "OK boomer," the divide between millennials and other generations has implications for small-business banking that are transforming the market and setting the scene for the future of the industry. Attitudes, expectations, product needs, and where small businesses are looking for financial services are changing. While the age of an individual financial decision-maker does not guarantee a specific level of technological savvy or attitudes to their banking partners, businesses of younger cohorts show a significant level of difference from businesses run by older generations. This difference cannot be attributed to fads or temporary blips and is only likely to become more pronounced as Generation Z enters the market. More than simple complaints of "kids these days," the needs of millennial-run small businesses signify a deeper shift in how SMBs as a whole interact with their financial service providers, with long-term implications.

This report provides an overview of the generational differences between small-business banking customers and what they want from their financial institutions.

METHODOLOGY

This report is based primarily on a Q3 2021 Aite-Novarica Group online survey of 1,004 U.S.-based small businesses. For the purposes of this Impact Report, "small businesses" are defined as those businesses generating between US$100,000 and US$20 million in annual revenue. While this revenue range extends beyond how some banks may define the segment, the group as a whole represents a large opportunity for banks. Businesses generating less than US$100,000 in annual revenue have intentionally been left out, as their actions most likely mirror those of consumers. A survey of this size offers a 3-point margin of error at a 95% confidence level; statistical tests of significance among differences were conducted at either the 95% or 90% level of confidence, depending on sample size. This report's content also leverages Aite-Novarica Group research of banks' small-business offerings and strategies, and the author's extensive knowledge of the market. The breakdown of survey participants by annual revenue is shown in Figure 1.

FIGURE 1: SURVEY PARTICIPANTS BY REVENUE

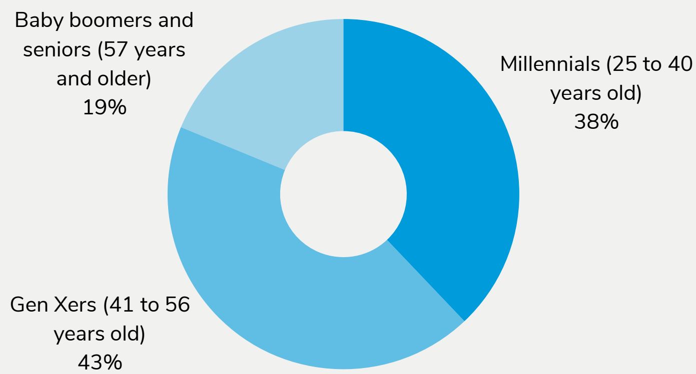


Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

The results of the above-described survey are analyzed in this report according to the age cohorts of primary financial decision-makers within these small businesses. This typically includes business owners or senior management. Aite-Novarica Group defines these age cohorts into three primary categories: millennials, aged between 25 and 40; Generation Xers, aged between 41 and 56; and baby boomers and seniors, aged 57 or above. The breakdown of survey respondents by the age of their organization's primary financial decision-maker is shown in Figure 2.

FIGURE 2: SURVEY PARTICIPANTS BY AGE OF FINANCIAL DECISION-MAKER

Q. Which of the following includes the age of the person who manages most of your company's financial business?
(Base: 1,002 small-business financial decision-makers)



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

THE MARKET

The small-business banking market is changing rapidly, driven by shifts in how these businesses operate and what they expect from their banks and financial services partners. New technologies, new operating models, and shifts in attitudes and expectations present a potentially tricky path for banks to navigate in meeting the needs of this rapidly changing and growing customer base.

TABLE A: THE MARKET

MARKET TRENDS	MARKET IMPLICATIONS
SMBs are increasingly digital.	Small businesses everywhere are now more online and are using a range of digital back-office infrastructure to drive their businesses. From e-commerce and merchant acquiring through to cloud-based accounting and ERP systems, the back-office infrastructure of SMBs is becoming more complex, and this is driving a need and expectation for more sophisticated financial services.
The COVID-19 pandemic has accelerated the shift away from legacy banking processes.	More so than other segments, SMBs have been hit hard by the COVID-19 pandemic. In many instances, they have quickly had to digitize and modernize older paper-based processes. Demand for digital banking capabilities and rapid onboarding has risen in recent years.
Competition is growing in the SMB banking space.	Banks are becoming more competitive in the SMB banking space, with many finally moving beyond simply rebranded consumer offerings. Neobanks and fintech challengers are now actively targeting SMBs as an underserviced market; this is raising market expectations.
Fintech partnerships are on the rise.	While some fintech vendors go directly to SMBs as clients, many others are targeting bank partnerships to help grow their customer base. This provides banks with a scalable way to achieve best-in-class capabilities and new features targeting SMBs.

MARKET TRENDS	MARKET IMPLICATIONS
Younger cohorts have less brand loyalty than older generations.	Millennial-run businesses are less brand-loyal to their banks and are more likely to change their primary bank or work with a variety of potential partners. This is driving customer churn in SMB banking and helping fuel rising levels of competition.

Source: Aite-Novarica Group

Where Millennial-Run SMBs Bank

Millennials have been a major focus for product developers and marketers for many years, as various industries have attempted to understand and better exploit the proclivities and tastes of this generation. With millennials making up the largest age cohort in the U.S. workforce since 2016,[1] this focus on age demographics is now well-established within the financial services space, and it is being felt within the small-business banking space in particular. Beyond simple tastes in coffee or social media habits, the attitudes and behaviors of millennial-run small businesses are observable and measurable. They suggest surprising long-term changes for the small-business banking market.

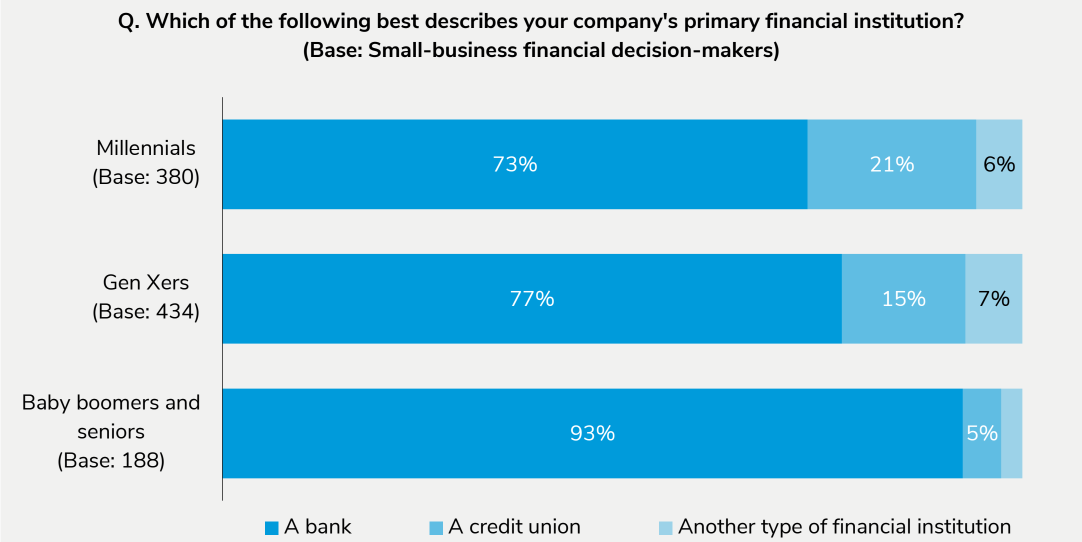
For banking providers, meeting the needs of millennials can be challenging in that the needs and expectations of baby boomers and seniors, and the less-discussed Generation X, cannot be ignored. However, differences between all three generations, show a clear pattern, with Generation X sitting somewhere between millennials and baby boomers on most metrics. Longer term, this suggests the trends seen with millennials will continue to advance and dominate the market for the foreseeable future.

Millennials Bank With a Wider Variety of Institutions

Millennial-run small businesses are more likely than businesses run by other generations to use a credit union or other type of organization as their primary financial institution, with 27% of millennial-run SMBs operating outside a standard bank. This compares to only 8% of baby boomer- and senior-operated small businesses. This suggests millennials, in particular, are more open to working with partners outside large-scale Tier-1 SMB banking providers. Figure 3 highlights these differences.

1 Drew DeSilver, "10 Facts About American Workers," Pew Research Center, August 29, 2019, accessed October 29, 2021, https://www.pewresearch.org/fact-tank/2019/08/29/facts-about-american-workers/.

FIGURE 3: PRIMARY FINANCIAL INSITUTION BY AGE COHORT



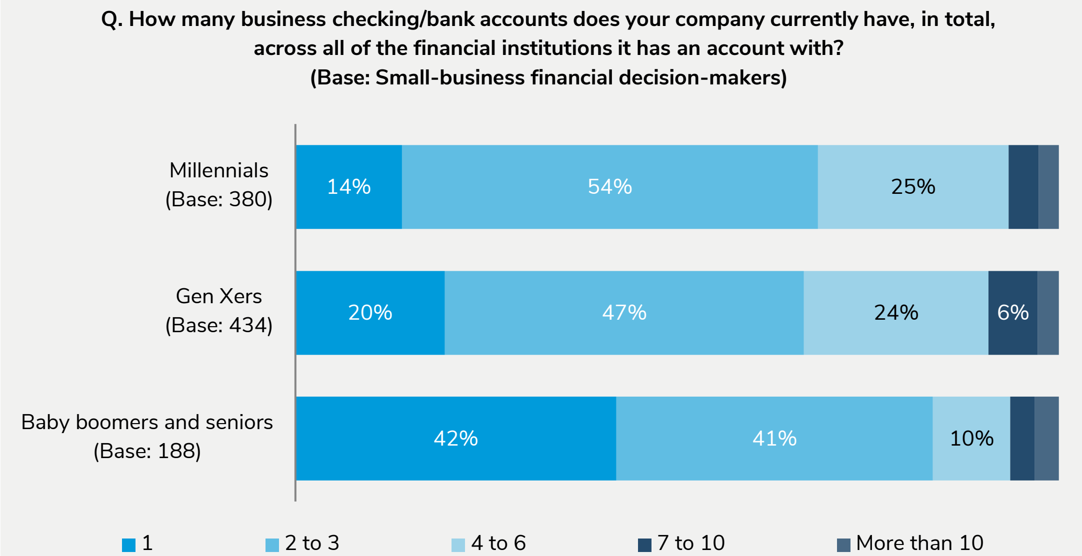
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

Millennial SMBs Hold More Deposit Accounts

While millennials are more open to working with financial institutions other than standard banks, millennial SMBs are more prone to holding a wider number of accounts across all of their financial institution partners. Only 14% of millennial-run SMBs hold only one business checking or bank account, compared to 42% of baby boomer- and senior-operated SMBs. Over half of millennial-run businesses (54%) hold two to three accounts, while one in four millennial-run businesses hold four to six accounts (Figure 4).

This high level of account holding suggests that millennial-run SMBs have more complex banking needs, and many are not receiving what they need from a single provider. This also means that enticing millennial-run SMBs to open new accounts is easier than it has been in previous generations. This has implications in terms of competitive strategies between banks, cross-selling accounts, and offering solutions that better meet the needs of millennial-run SMBs.

FIGURE 4: NUMBER OF BANK ACCOUNTS HELD



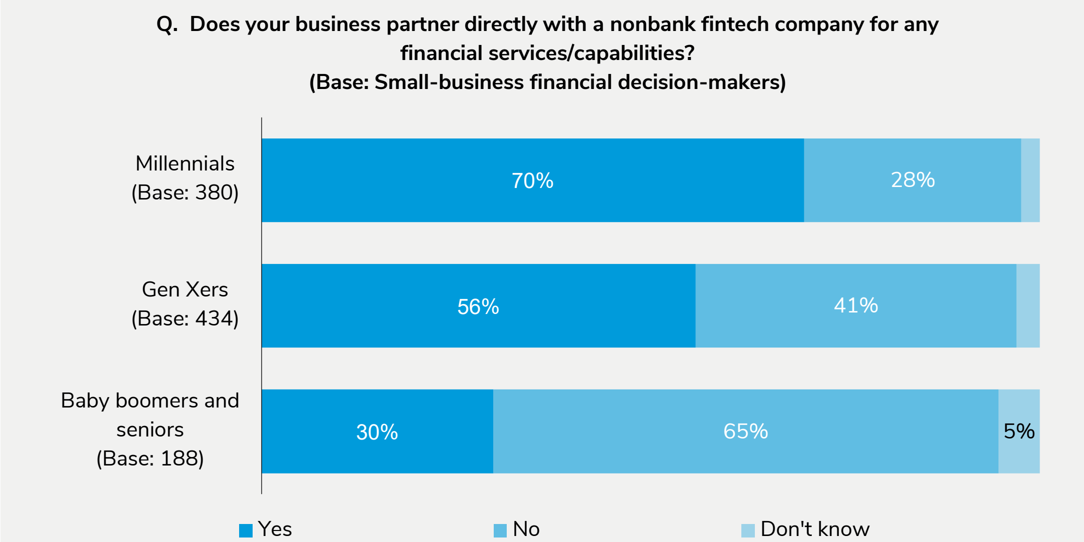
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

Millennial SMBs Are Already Working With Nonbank Fintech Partners

Indicative of millennial-run SMBs' greater willingness to hunt for the banking services they need, 70% of these SMBs report they are partnered with a nonbank fintech firm for financial services capabilities. This compares to 56% of Generation Xer-run businesses and only 30% of baby boomer- and senior-run enterprises (Figure 5).

With a growing number of nonbank fintech providers specifically targeting SMBs and the rise of embedded banking across a range of accounting and ERP platforms, nonbank players have scope for further growth. This highlights the growing competition small-business banking providers face from new market entrants.

FIGURE 5: NONBANK FINTECH PARTNERSHIPS



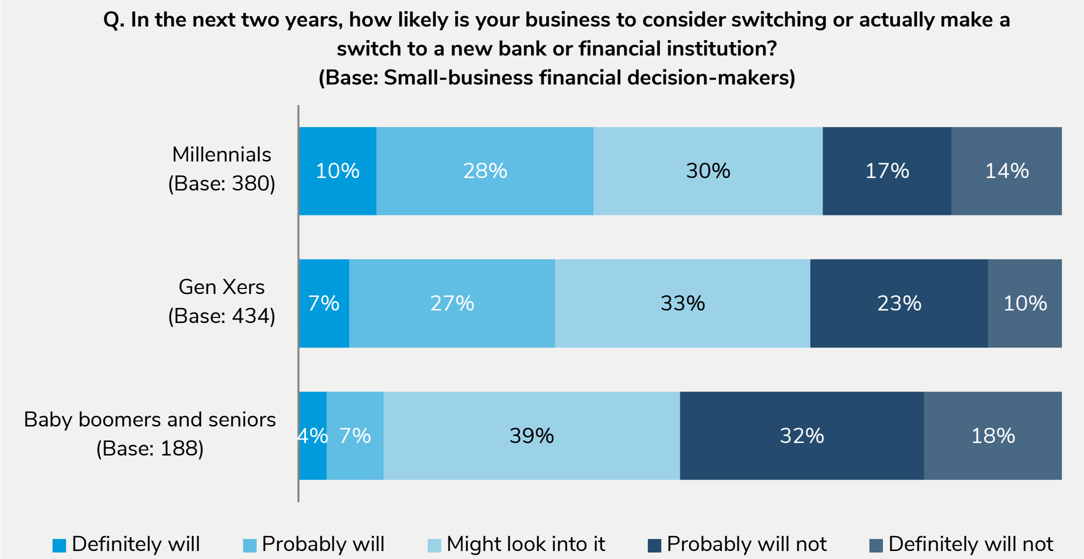
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

Millennials Are More Open to Switching Banks

The lower levels of brand loyalty among millennials have been well-documented across many industries and hold true within the small-business banking space. As shown in Figure 6, only 4% of baby boomer- and senior-operated SMBs report they would definitely consider switching or would actually switch to a new bank in the next two years. This compares to 10% of millennial-run businesses saying they definitely will. A further 28% of millennial-run businesses say they probably will consider switching, compared to only 7% of baby boomer- and senior-run businesses.

While many banks have long operated under the assumption that checking accounts tend to be sticky and switching banks is a relatively rare phenomenon, this is changing. With newer and more competitive onboarding processes, and greater willingness to hold multiple accounts, SMBs are now better placed than ever to easily sign up and trial various small-business banking products and accounts.

FIGURE 6: SMB LIKELIHOOD OF CHANGING BANK



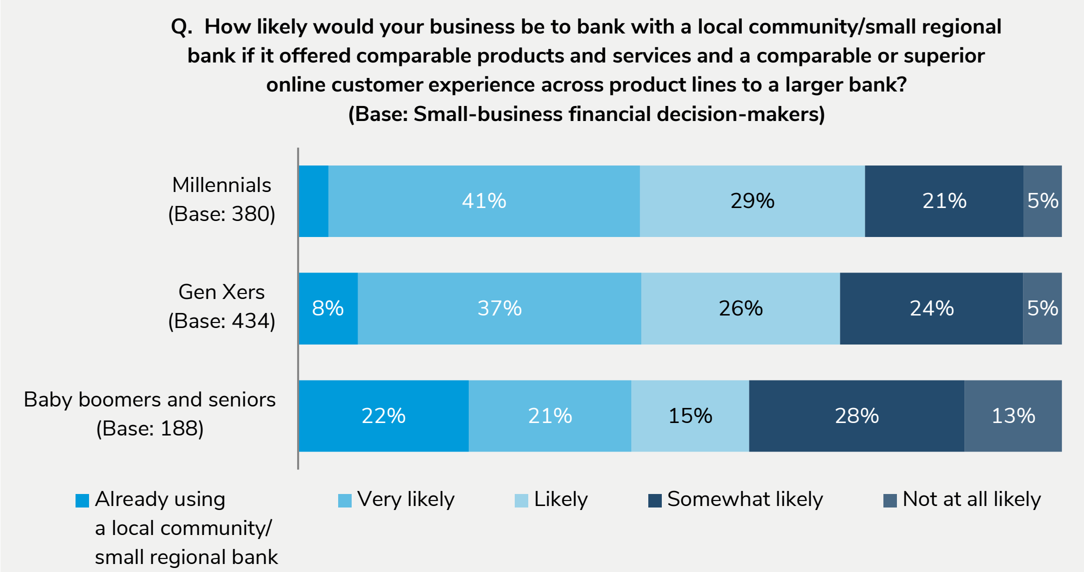
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

Millennial-Run SMBs Are an Opportunity for Community and Regional Banks

Indicative of the potential for customer churn in the SMB banking space, millennial-run SMBs are more willing to work with local community or small regional banks if they are comparable or superior to a larger bank (Figure 7). Seventy percent of millennial-run SMBs report they would be very likely or likely to make such a switch, compared to 36% of baby boomer- and senior-run SMBs. However, Aite-Novarica Group notes that baby boomer- and senior-run businesses (22%) already hold a stronger position with local and regional banks.

This high level of millennial openness to smaller banks suggests that smaller banks that can meet the needs of millennials hold strong potential to gain market share from larger players, albeit with the right product and service offerings.

FIGURE 7: OPENNESS TO BANK WITH A LOCAL COMMUNITY OR SMALL REGIONAL BANK



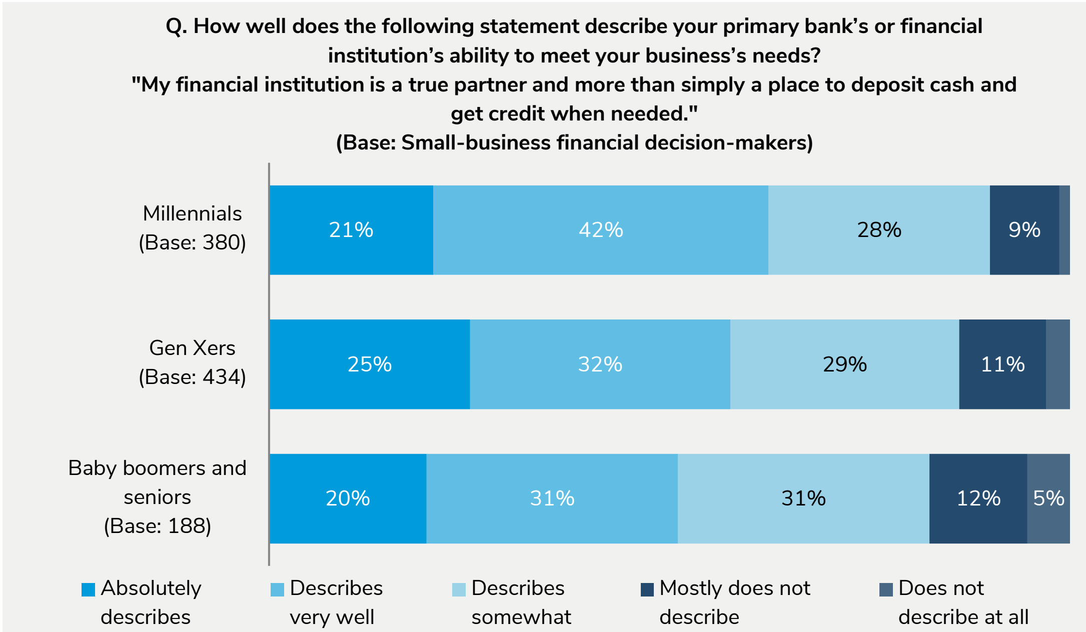
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

Banks Are Increasingly Seen as Partners

Despite millennial-run SMBs' greater willingness to bank outside standard banks, change financial institutions, hold multiple accounts, and work with fintech firms, these businesses also seek a deeper level of partnership from their banks. Figure 8 highlights how nearly two-thirds (63%) of millennial-run SMBs agree with the statement, "My financial institutions is a true partner and more than simply a place to deposit cash and get credit when needed." Of those two-thirds, 21% felt it absolutely described their view, and 42% said it described it very well, while a further 28% agreed it described their views somewhat.

Among baby boomer- and senior-run SMBs, 51% agreed with this statement. The need for partnership remains important to all age cohorts; however, despite the lower levels of brand loyalty, millennials increasingly view this as important to their banking relationships. With their greater willingness to switch, this suggests that banks that can only provide a utilitarian and transactional level of service to their millennial-run SMB customers are at very real risk of customer attrition.

FIGURE 8: PERCEPTIONS OF BANKS AS PARTNERS



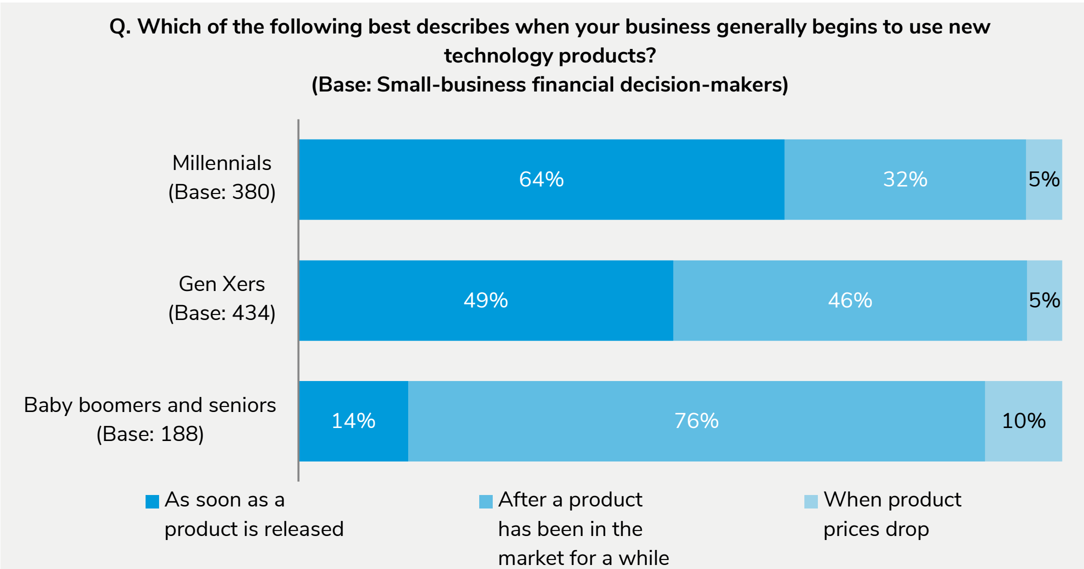
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

TECHNOLOGY IS MORE CRITICAL THAN EVER TO MILLENNIAL-RUN SMBS

Among the starkest differences between millennial-run SMBs and SMBs run by other generations are their attitudes toward using new technology products. A whopping 64% of millennial-run SMBs report using new technology as soon as a product is released. This compares to 49% of Generation Xer-run SMBs and only 14% of baby boomer- and senior-operated businesses. Most baby boomers and seniors wait until after a technology product has been in the market for a while before deploying it. This suggests millennials are not only more open to new technology but are also likely to see new technology as holding competitive advantages. These differences are highlighted in Figure 9.

For banks and other providers targeting the SMB space, early customers to new banking technologies are far more likely to come from millennial-run businesses.

FIGURE 9: SMB USE OF NEW TECHNOLOGY



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

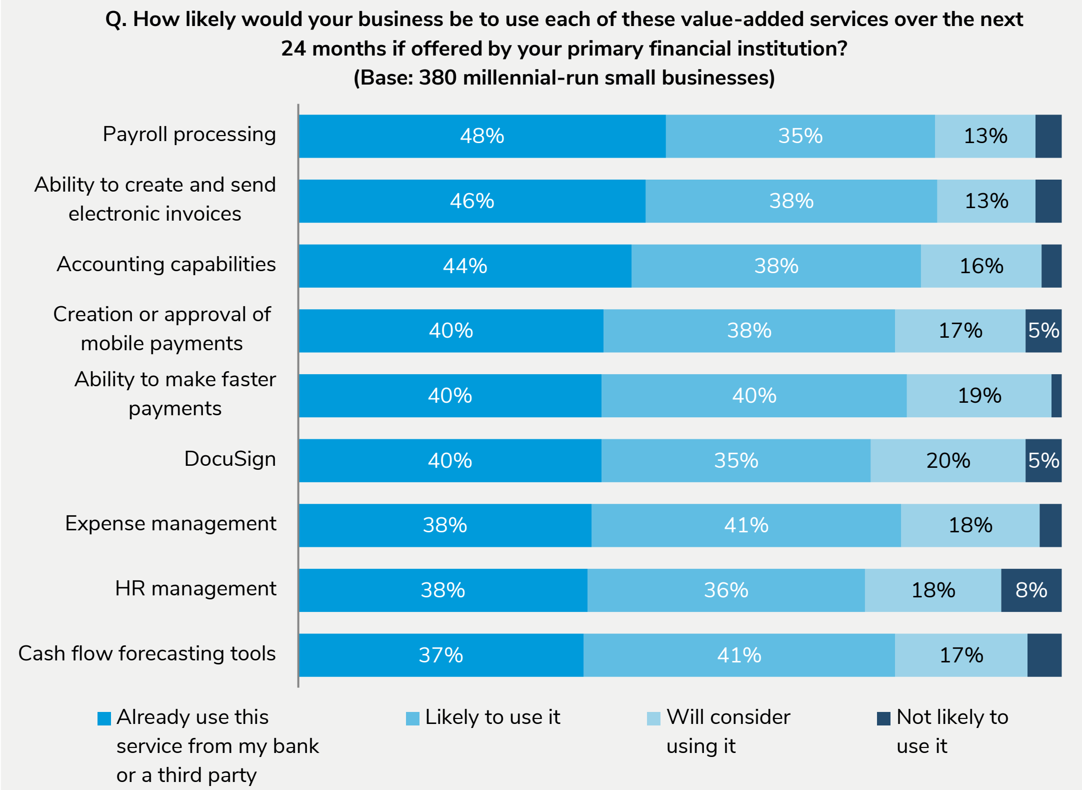
Millennial-Run SMBs Are Open to Using Bank-Delivered, Value-Added Services

Aside from basic checking account and payment services, millennial-operated SMBs show a high degree of openness to using value-added services delivered by their financial institution. Across most value-added product categories—including payroll processing, faster payments, and cash flow forecasting—between 37% and 48% of millennial-operated SMBs report they already use their bank or a third party for these services (Figure 10).

Where not in use already, millennial-operated SMBs show a strong level of openness toward using value-added capabilities offered by their bank. Cash flow forecasting and expense management both show the highest likelihood of use, with 41% each. But DocuSign and payroll processing, at the lower end of interest, still show a healthy 35% of interest. Most millennial-operated SMBs report healthy levels of being at least willing to consider using these services—between 13% to 20%, respectively. Very few millennial-operated SMBs reported they would be unlikely to use any of these value-added services, with human resources (HR) management the least popular service, at 8%.

Overall, millennial-operated SMB interest in value-added services delivered by their primary financial institution is broadly consistent across product and service areas, with no single area standing out as being of more or less interest. This underlines millennials' willingness to try a new range of technologies and services, and their openness to working with a variety of providers. For bank providers, this means essentially everything is on the table in terms of potential service offerings.

FIGURE 10: MILLENNIAL INTEREST IN VALUE-ADDED BANKING SERVICES



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

Baby Boomer- and Senior-Run SMBs Are Resistant to Value-Added Services

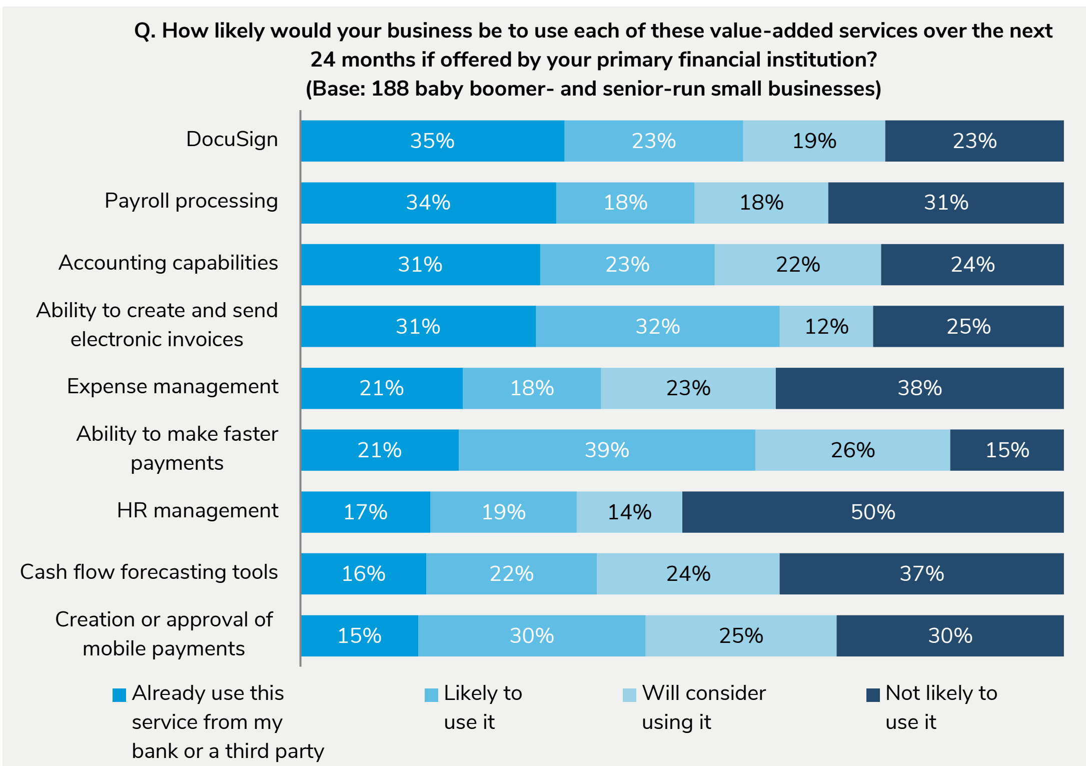
While millennial-run SMBs are open to and already active in using many value-added services from their banks or third parties, baby boomer- and senior-operated SMBs show a markedly lower level of use for these services. Moreover, they indicate a substantially higher level of resistance to using these services if offered by their bank (Figure 11).

DocuSign and payroll processing are the most widely used value-added services by baby boomer- and senior-operated SMBs, at 35% and 34%, respectively. Other service areas stand lower, including creation or approval of mobile payments, at only 15%. In terms of value-added services provided by their primary bank, the ability to make faster payments shows the highest likelihood of use (39%); a further 26% report they would consider it.

In comparison to millennial-run SMBs, baby boomer- and senior-operated businesses show substantially more resistance to using bank-led value-added services. Half of baby boomer- and senior-operated SMBs report they would be unlikely to use HR management services offered by their bank, compared to 8% of millennial-run SMBs. Expense management (38%) and cash flow forecasting (37%) are also unlikely to be used, which again contrasts with the high share of millennial-run SMBs reportedly likely to use these services.

For banks and financial institutions, the dichotomy between interest in and even willingness to consider using a variety of value-added services between millennial-operated SMBs and baby boomer- and senior-operated businesses suggests that taking a lump-sum view of the market may miss major pockets of demand. Levels of interest in new services are highly uneven across demographics, and banks risk missing out on changing expectations from younger business owners.

FIGURE 11: BABY BOOMER AND SENIOR INTEREST IN VALUE-ADDED BANKING SERVICES



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

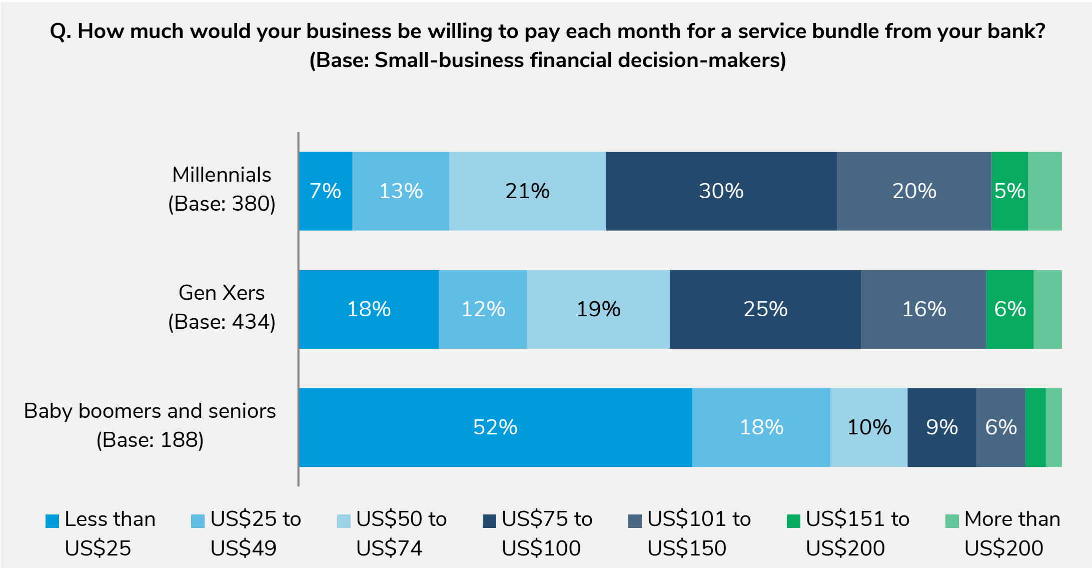
MILLENNIALS ARE MORE WILLING TO PAY FOR VALUE-ADDED SERVICES

Luckily for banking providers, value-added services are valued by millennial-run SMBs. They are more willing than baby boomer- and senior-run businesses to pay for these additional benefits. When asked how much they'd be willing to pay each month for a service bundle from their bank, 93% of millennial-run SMBs reported they would be willing to pay more than US$25 per month (Figure 12). The largest single price points were US$75 to US$100 per month, at 30%, and US$50 to $US74 per month, at 21%.

Baby boomers and seniors were more reluctant to pay for these services, in line with their lower levels of interest overall in these capabilities. Fifty-two percent of baby boomer- and senior-run SMBs were only willing to spend less than US$25 per month on these capabilities, with an ever-decreasing proportion of baby boomers and seniors willing to pay each incremental pricing tier. This reflects baby boomer- and senior-run SMBs' greater focus on pricing than millennial-run SMBs.

Millennial-run SMBs' willingness to pay for value-added services is beneficial for banks and suggests a direct line to profitability in targeting these SMB customers. Rather than merely offering more services to meet customers' rising expectations, millennial-run SMBs hold untapped potential to grow bank revenue.

FIGURE 12: WILLINGNESS TO PAY FOR A BANK SERVICE BUNDLE



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

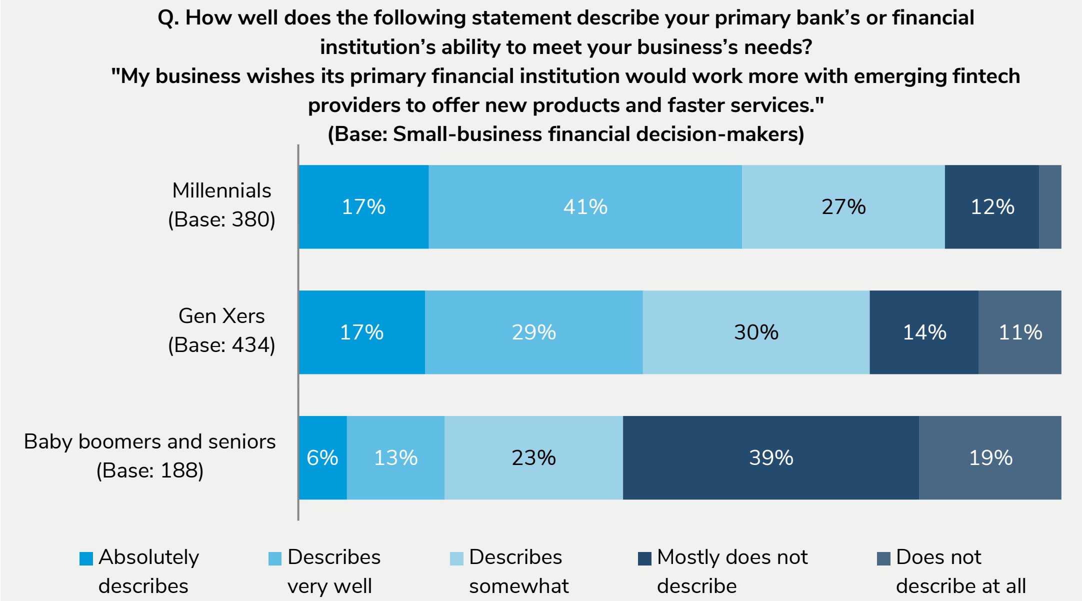
UNLIKE BABY BOOMERS, MILLENNIALS WANT THEIR BANKS TO WORK WITH FINTECH FIRMS

In line with millennial-run SMBs' openness to a variety of new value-added services delivered by their bank, these businesses are also in favor of their primary banks working more closely with emerging fintech providers. As highlighted in Figure 13, 58% of millennial-operated SMBs show a very strong level of interest in their bank working more closely with fintech providers.

Only 15% of millennial-run SMBs show resistance to their banks working more closely with fintech providers. Only 3% of millennial-operated SMBs completely disagree with the statement "My business wishes its primary financial institution would work more with emerging fintech providers to offers new products and faster services." In contrast, 58% of baby boomer- and senior-operated SMBs are resistant to these partnerships, with 19% showing the strongest level of resistance.

While generational divides can often be overstated in popular discourse, the divide between millennial-run SMBs and baby boomer- and senior-run businesses is mirrored in their attitudes. This suggests that fintech partnerships are undoubtedly a positive for most millennial-run partnerships, but navigating these partnerships may need some finesse when dealing with older-age cohorts of SMB customers.

FIGURE 13: SMB INTEREST IN CLOSER BANK AND FINTECH PARTNERSHIPS



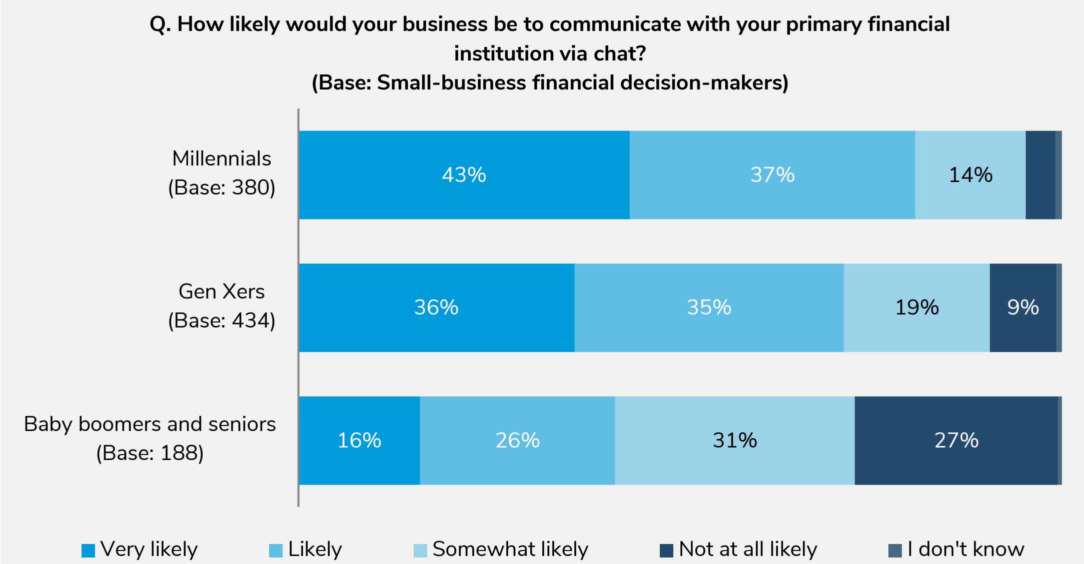
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

NEW COMMUNICATION CHANNELS ARE POPULAR WITH MILLENNIALS

Even on a more day-to-day level, such as channels of communication between SMBs and their primary financial institutions, differences are emerging, particularly when it comes to newer digital channels. While more traditional communication methods—such as in-branch visits or emails—show a similar level of likely usage across age cohorts, larger differences appear when looking at newer channels, such as chat and chatbots (Figure 14 and Figure 15).

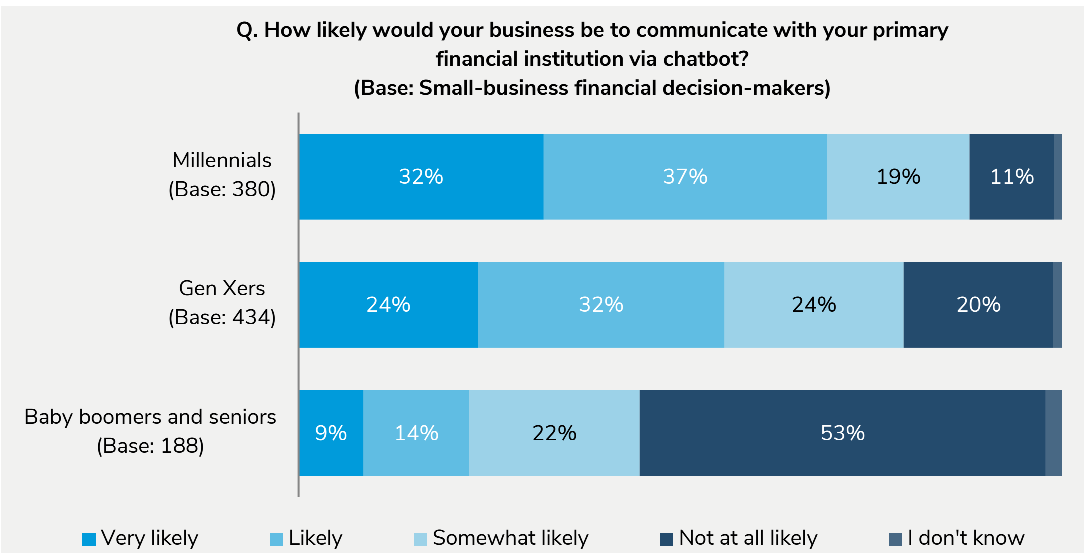
Millennials are substantially more comfortable with these digital channels, as 80% of millennial-run SMBs are likely or very likely to use chat functionality, compared to just 42% of baby boomer- and senior-run businesses. The use of AI-driven chatbots is less popular overall, but even here, 69% of millennial-run SMBs are very likely or likely to use these channels. This compares to only 23% of baby boomer- and senior-run SMBs. Underlining their antipathy, 53% of baby boomer- and senior-operated SMBs report they are not at all likely to use chatbots.

FIGURE 14: LIKELIHOOD OF USING CHAT TO COMMUNICATE WITH BANKS



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

FIGURE 15: LIKELIHOOD OF USING CHATBOTS TO COMMUNICATE WITH BANKS



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

MILLENNIALS FACE MORE PAIN POINTS FROM THEIR BANKS

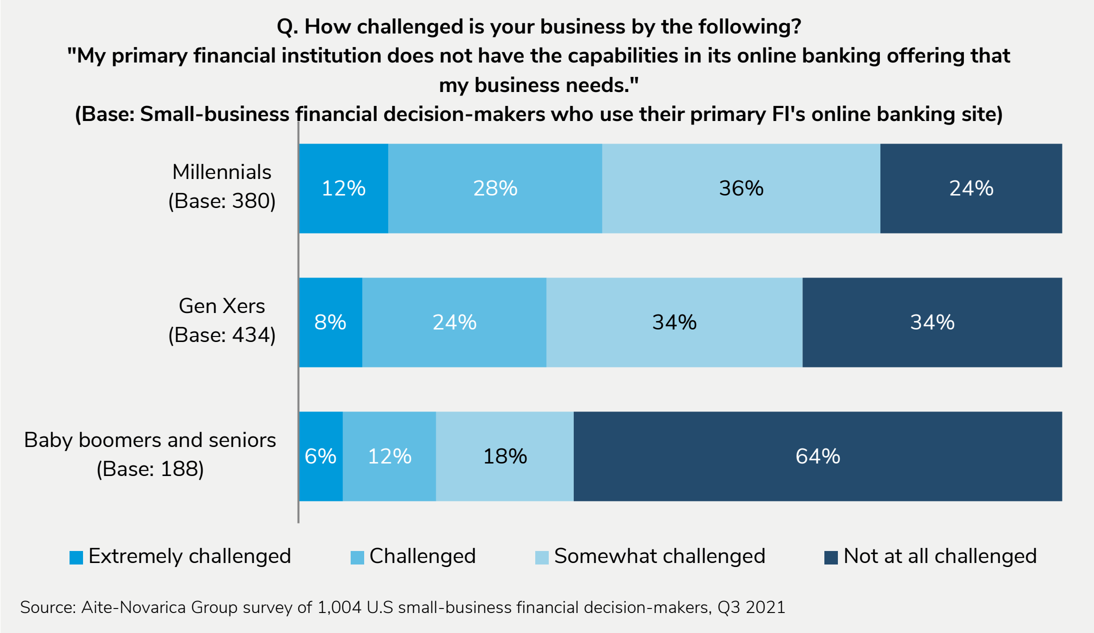
Baby boomer- and senior-operated SMBs are likely to be more established than millennial-run businesses. As such, it's likely that the pain points and frictions of millennial-run SMBs—many of which are in an earlier phase of operations—will differ from businesses with more history and experience under their belt. However, putting those differences aside, it is telling that millennials report a higher degree of challenge with the features available to them in SMB online banking, again underlining their changing expectations of what they need from their banking partners.

ONLINE BANKING IS NOT MEETING THE NEEDS OF MILLENNIAL-RUN SMBS

Chief among the problems faced by millennial-run businesses is the perception that their primary bank does not offer the capabilities their business needs. In many instances, these problems arise from the fact that SMBs' online banking offerings remain very similar to those of consumers, with ensuing limited functionality. Figure 16 shows 40% of millennial-run SMBs report feeling extremely challenged or challenged by a lack of online banking capabilities, with a further 36% feeling somewhat challenged.

In contrast, less than half (18%) of baby boomer- and senior-operated SMBs feel they are challenged by a lack of online banking capabilities. In fact, 64% of baby boomer-run businesses are not at all challenged. Indicative of the rapidly changing needs of SMBs, Generation Xer-run SMBs report a level of challenge in their online banking capabilities closer in line with millennials, even though these businesses may be more established.

FIGURE 16: LEVEL OF CHALLENGE FROM A LACK OF ONLINE BANKING CAPABILITIES

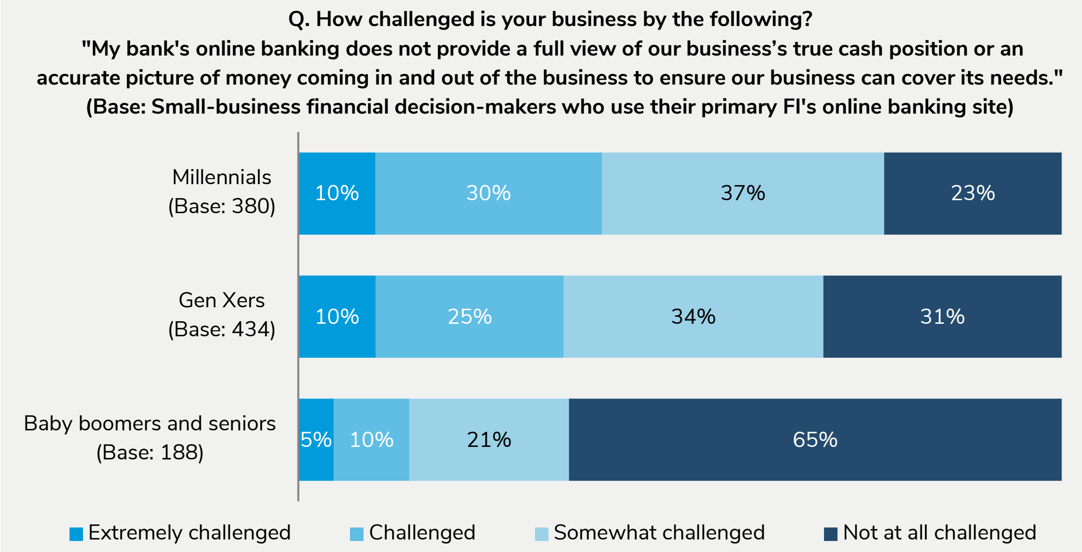


Millennial-Run SMBs Are Challenged by Not Having a True View of Their Cash Position

Cash positioning and money management are critical to any SMB operation, particularly when dealing with issues such as cash flow and liquidity management. Forty percent of millennial-run businesses say they feel extremely challenged or challenged by the fact their online banking does not provide a true view of their cash position or an accurate picture of money coming in or out of the business. Only 15% of senior- and baby boomer-run businesses feel the same (Figure 17).

Sixty-five percent of baby boomer- and senior-run SMBs report they are not at all challenged by a poor view of their cash position. This indicates that these challenges are more likely driven by variations in expectations between businesses than by variations within banks.

FIGURE 17: LEVEL OF CHALLENGE FROM VISIBILITY OF CASH POSITION



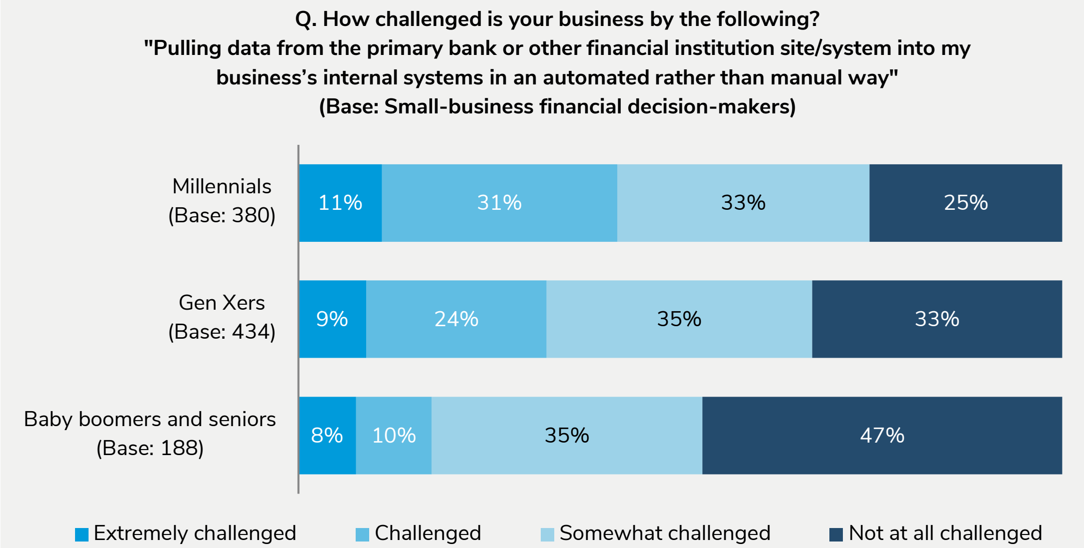
Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

Data Integration Is a Pain Point for Millennial SMBs

With even small SMBs now operating increasingly complex back-office infrastructure through cloud-based accounting platforms, such as Xero or QuickBooks, or merchant-acquiring and e-commerce platforms, such as Square, Shopify, and Magenta, businesses of all sizes have a growing demand for greater levels of data integration between their bank and back-office business infrastructure. For many SMBs, this remains a challenge.

Figure 18 shows that 42% of millennial-run SMBs report they are extremely challenged or challenged by the need to pull data from their bank into their internal systems in an overly manual rather than automated way. Only 18% of baby boomer- and senior-run SMBs had the same level of challenge.

FIGURE 18: LEVEL OF CHALLENGE FROM BANK TO BUSINESS DATA PORTABILITY



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

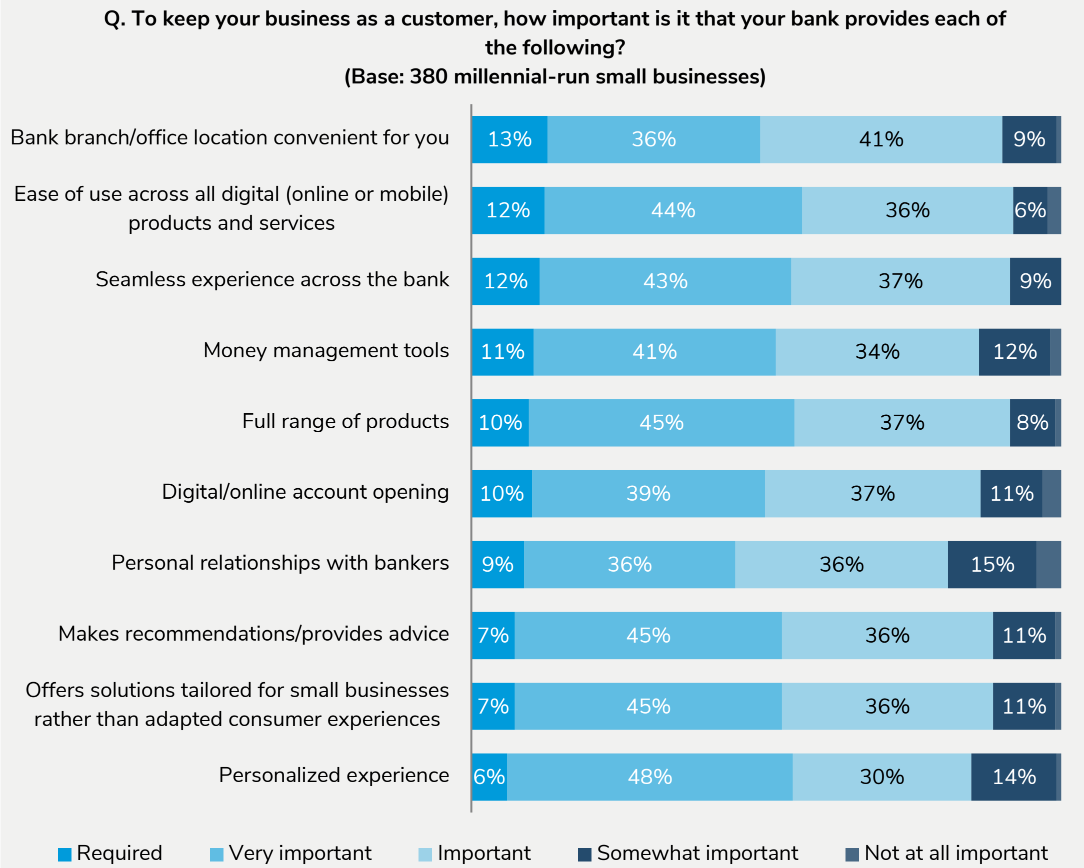
WHAT MILLENNIALS EXPECT FROM THEIR BANKS

With a willingness to change banks on the rise among millennials, banks must focus on maintaining their existing customers. In line with millennial interest in a wide range of product areas and best-in-class capabilities, essentially everything remains important to these customers, including fintech partnerships. When asked how important a range of capabilities was to customers in regard to staying with their bank, most categories were at a similar level of importance, with virtually no areas considered not at all important (Figure 19). A personal relationship with bankers was viewed as not important by 4% of millennial-run SMBs. This suggests that even for digital-first millennial-run businesses, personal relationships with bankers remain essential.

Perhaps surprisingly, given the focus on digital portals and various technological functionalities, a convenient bank branch or office scored the highest for being a requirement for continued banking business, at 13%. This was followed closely by ease of use across digital channels and a seamless user experience, with both seen as a requirement by 12% of millennial-run SMBs.

With so many areas of service considered important to millennial-operated SMBs, including continued use of their bank, and with their greater willingness to change financial service providers or work with a multitude of financial service providers, banks increasingly need to offer a full range of services and capabilities to their SMB clients.

FIGURE 19: MILLENNIAL-RUN SMB EXPECTATIONS FROM THEIR BANKS



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

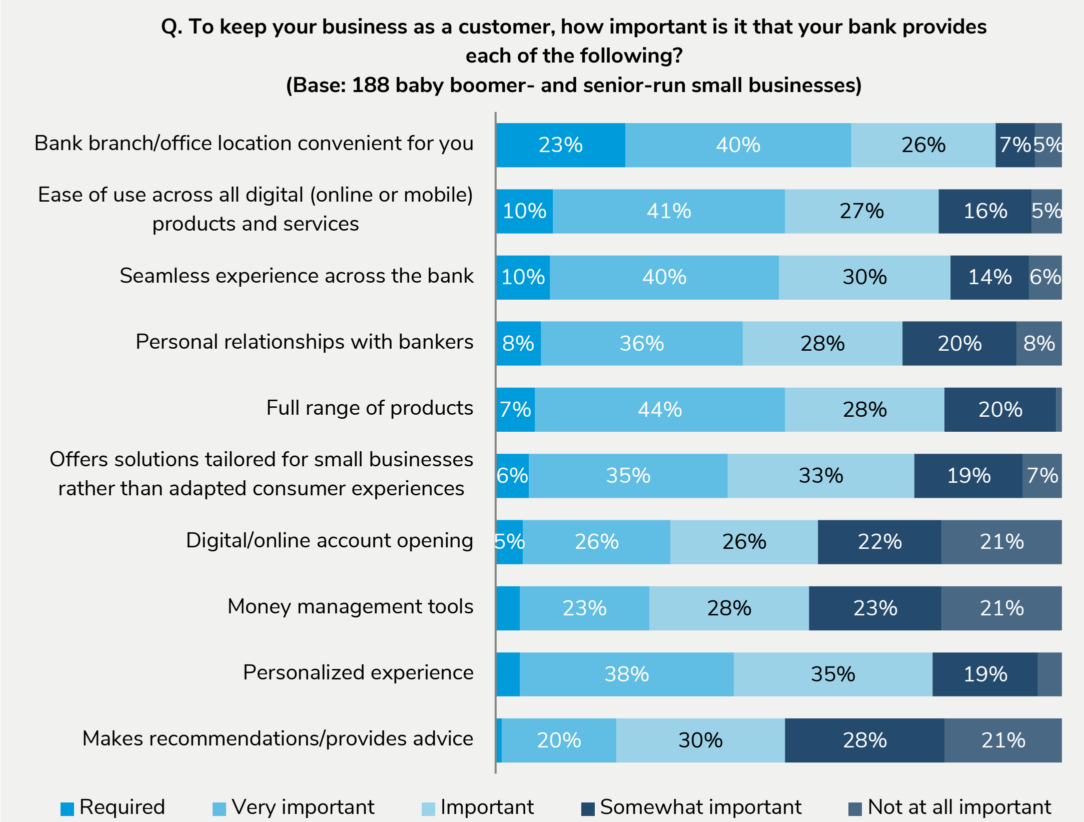
Baby Boomer- and Senior-Run SMBs Have Lower Expectations for Their Bank

Expectations from baby boomer- and senior-run businesses in what their bank needs to provide to keep them as customers remain much more mixed than expectations from millennial-run SMBs. A convenient branch or office location was seen as the single biggest requirement for 23% of these SMB businesses—much higher than any other consideration.

Newer capabilities—such as making recommendations and providing advice, money management tools, and digital or online account opening—were seen as not at all important by 21% of baby boomer- and senior-run SMBs. Surprisingly, baby boomer- and senior-run SMBs are less concerned with personal relationships with bankers, as 28% view it as only somewhat important to not at all important, compared to 19% of millennial-run SMBs.

The contrast between the expectations of millennial-operated SMBs and baby boomer- and senior-operated SMBs suggests that many features that banks and their older customers may have seen as nonessential and simply nice to have are becoming increasingly important to millennial-run SMBs. Baby boomer- and senior-run SMBs instead look more interested in specific product features or services, likely in line with what they are already receiving.

FIGURE 20: BABY BOOMER- AND SENIOR-RUN SMB EXPECTATIONS FROM THEIR BANKS



Source: Aite-Novarica Group survey of 1,004 U.S small-business financial decision-makers, Q3 2021

CONCLUSION

- Millennial-run SMBs are looking for more from their banks and financial institutions. They are more likely to see their financial institutions as partners, and their expectations are high across the board. A business-as-usual approach will not suffice in gaining or even keeping millennial-operated SMB banking customers.
- Millennial-run SMBs are more willing to work with a variety of partners, typically hold more bank accounts, and want to see their primary banks partner with fintech firms. For small-business banking service providers, this provides a window to gain market share and grow on the back of greater levels of market churn.
- Value-added services are important to millennial-run SMBs, and they are willing to use or at least consider these capabilities from their small-business banking providers. Banks that can offer these capabilities stand a greater chance of retaining their existing customers and gaining new ones.
- New communication channels benefit banks in terms of efficiency and lower resource costs. While these channels, such as chat and chatbots, appeal to millennials, baby boomer- and senior-run businesses are much more ambivalent. Banks may need some nuance and education when forming communication strategies with businesses operated by older generations.
- Expectations from millennials are high when it comes to retaining their business with their current bank, and essentially all aspects of service are on the table. This means that small-business banking more than ever needs to move beyond being a repurposed consumer offering and adapt to the needs of these businesses.

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CONTACT

Research and consulting services:
Aite-Novarica Group Sales
+1.617.338.6050
sales@aite-novarica.com

Press and conference inquiries:
Aite-Novarica Group PR
+1.617.398.5048
pr@aite-novarica.com

For all other inquiries, contact:
info@aite-novarica.com

Global headquarters:
280 Summer Street, 6th Floor
Boston, MA 02210
www.aite-novarica.com

AUTHOR INFORMATION

Gilles Ubaghs
+1.416.818.1874
gubaghs@aite-novarica.com