

# learn how to beat the competition in the race for SMB acountholders

The SMB Marketplace and  
Opportunity



# introduction

Explore the enormous growth and revenue opportunities for community and regional financial institutions offering dedicated services to the small- to medium-sized business (SMB) marketplace, alongside some practical steps on what it takes to succeed from a service and technology perspective.

## what you'll discover

Hardly a day goes by without each and every one of us transacting with an SMB.

From dry cleaning to landscaping and housecleaning to your daily coffee, we're surrounded by small businesses that make our life possible. These businesses are the backbone of our economy and community – and they represent an enormous opportunity for community and regional financial institutions to expand revenue and grow their accountholder bases.

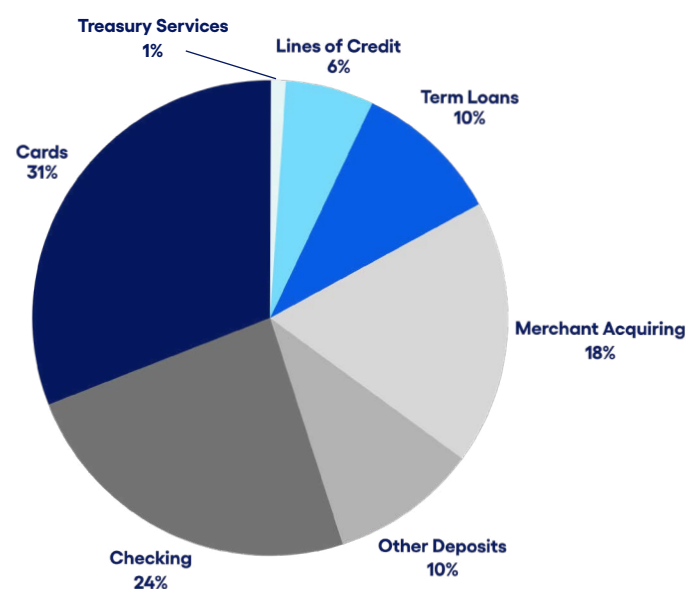
This paper explores a few things:

- The large diverse opportunity set within the SMB financial services marketplace.
- How you can attract and serve SMBs effectively by addressing their pain points.
- An outline of the technology and service ecosystem required to make the most of this opportunity.

# large and diverse opportunity set

It would be hard to overstate the sheer scale of the potential SMB opportunity. To start with, there are 34.8 million small businesses in America, representing 99.9% of all businesses and employing 46% of the total American workforce.<sup>1</sup>

## Opportunity Size: Revenue Enhancement

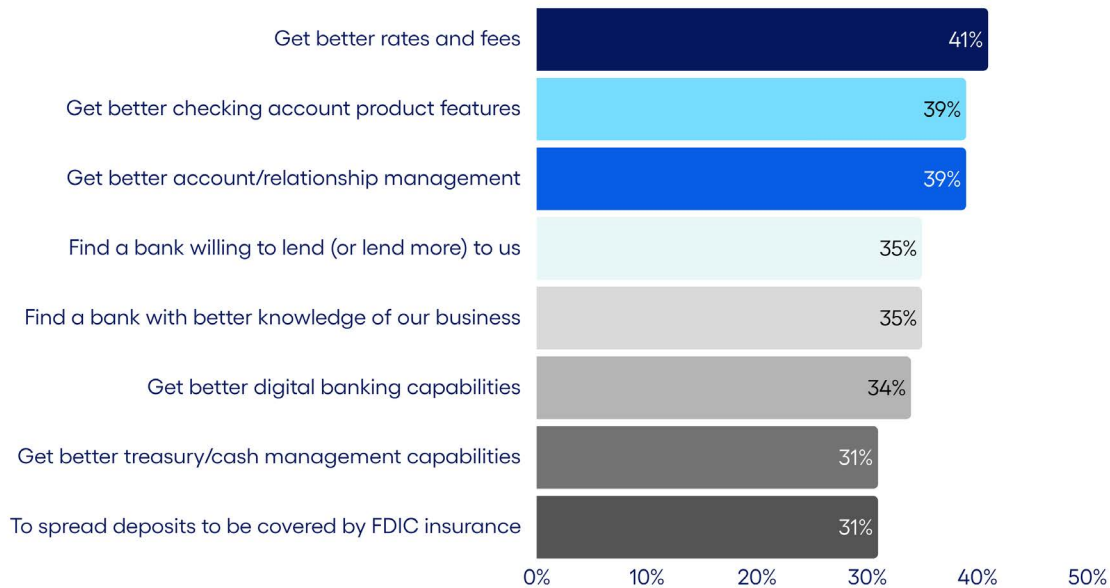


Source: Blueprint for a Model Small Business Bank

From a revenue perspective, the potential opportunity from SMBs for financial institutions is around \$130 billion, if you include cards. Importantly, a small business' daily cash balance is estimated to be \$13,900 on average (compared to consumers' median check account balance of \$3,000).<sup>2</sup>

That's nearly five times larger, on average, than a consumer account.

## Why would your business consider a new banking relationship?



Source: *How to Win More SMB Business in This Market*, StrategyCorps

It's worth noting that 34% of the revenue available on SMB financial services comes from a combination of checking and savings accounts.<sup>3</sup> Opening and servicing SMB accounts profitably represents an enormous revenue opportunity.

### Opportunity Size: New Account Opening

Although over half of SMBs say they are satisfied with their primary business account provider, that's not the whole story.

A recent business banking survey reports that two-thirds of SMBs are somewhat or very likely to look for a new banking relationship.<sup>4</sup> Nearly 40% desire a business checking account with better product features and capabilities. Ultimately, they are looking for a trustworthy advisor that they can work with and rely on. A community bank or credit union best fits that bill.

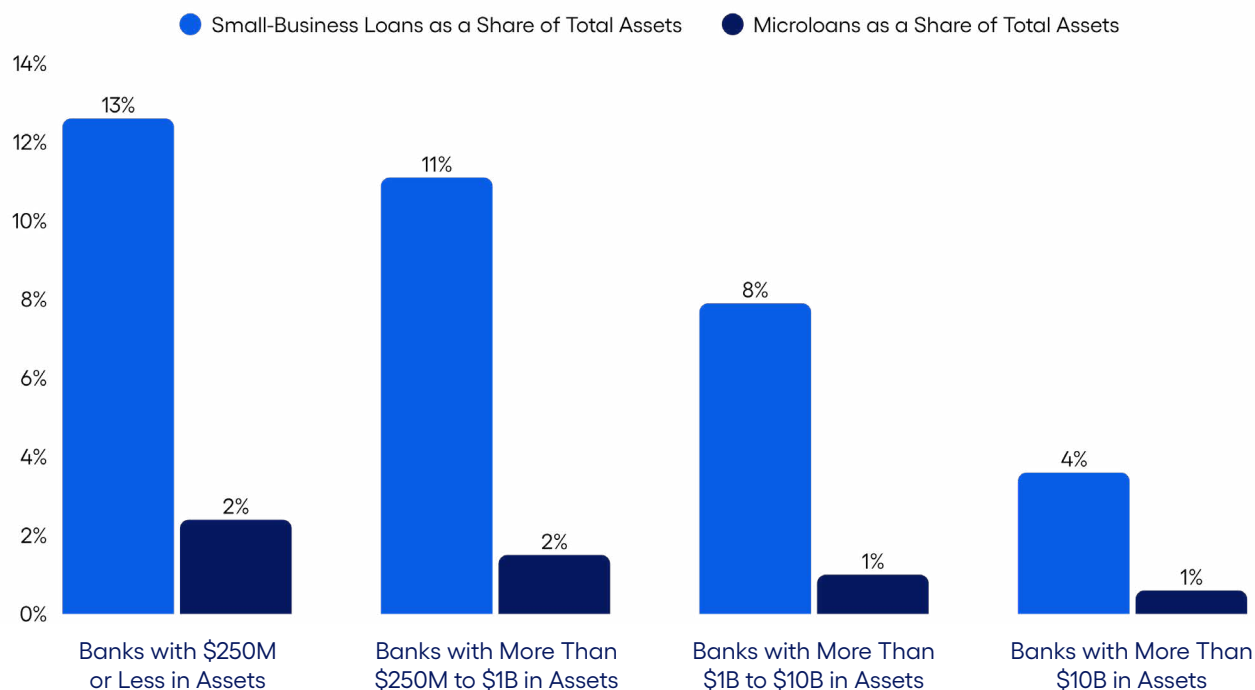
With a new small business relationship, you not only gain the new account, but also the potential in their entire network, including suppliers, employees, family, and their personal accounts. With the larger account balances in business accounts, this offers an opportunity that community institutions and credit unions can really lean into for long-term account growth.

### Opportunity Size: Loan Growth

Community and regional financial institutions are uniquely positioned to meet the challenges of lending to small businesses, as they have deep insight into local economic conditions and business opportunities.

Small businesses are generating about \$242 billion in unsecured loans annually, mostly for working capital loans of less than \$100,000.<sup>5</sup> This represents a significant opportunity and loan size that community banks and credits usually are typically very good at.

## Small-Business Loans and Microloans as a Percentage of Total Assets at U.S. Banks by Size



Source: Small Business Digital Engagement

This is reflected in the aggregate loan data. Community banks and credit unions hold a higher ratio of small business loans and microloans to total assets. Eighty-two percent of small business loan applications were at least partially approved for a loan versus 68% of applications at large financial institutions.<sup>6</sup>

When small businesses are shut out by large financial institutions, they go to smaller banks and credit unions, generating enormous potential for loan growth for community and regional financial institutions.

### Opportunity Size: Payments and Related Services

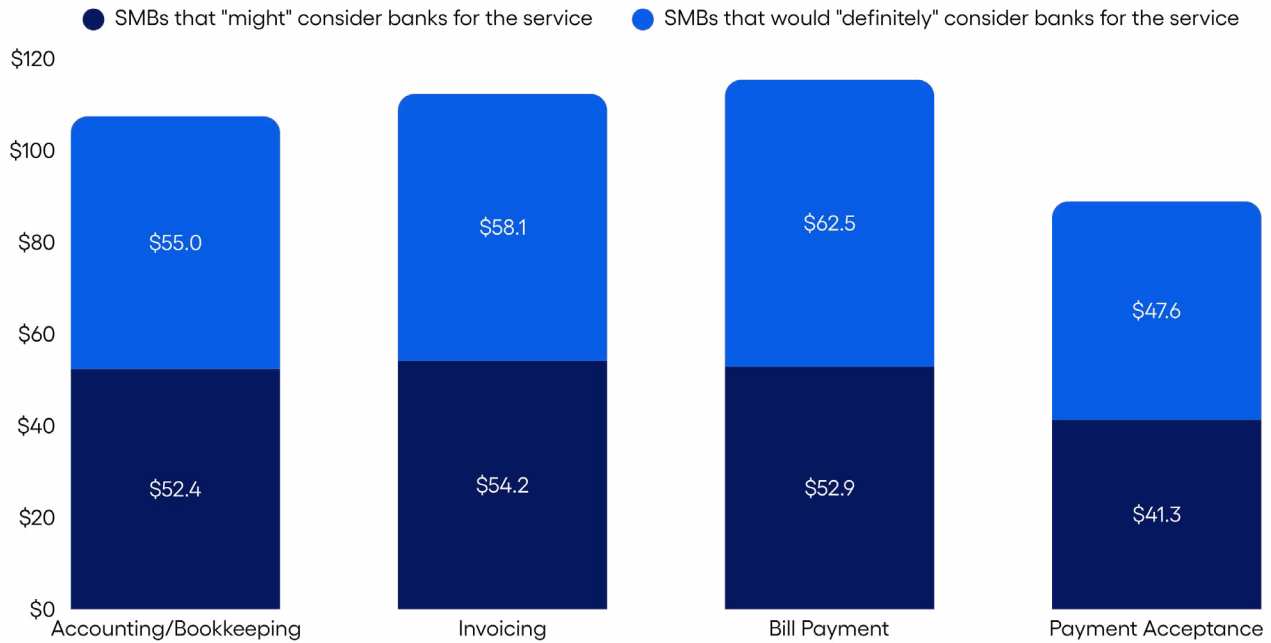
From a payments perspective, smaller businesses are definitely open to changing their payments

arrangements if the service proposition gives them the tools they need.

In addition to their payments needs – like instant payments, the ability to take cards, and immediate distribution of funds – they’re also looking for accounting tools (think invoicing and accounting services, particularly cash flow forecasting). Together, the estimated financial revenue pool for providing accounting and payment services to SMBs is \$424 billion per year.<sup>7</sup>

It’s the younger generation of entrepreneurs and side hustlers – Gen Z and even younger – that are most likely to really lean into modern payments services. As a result, they’re more likely to be the ones to leave or switch to another financial institution with a more modern payments offering.

## Banks' Revenue Opportunity by Service (\$ in billions)



Source: Reinventing Business Checking, Cornerstone Advisors

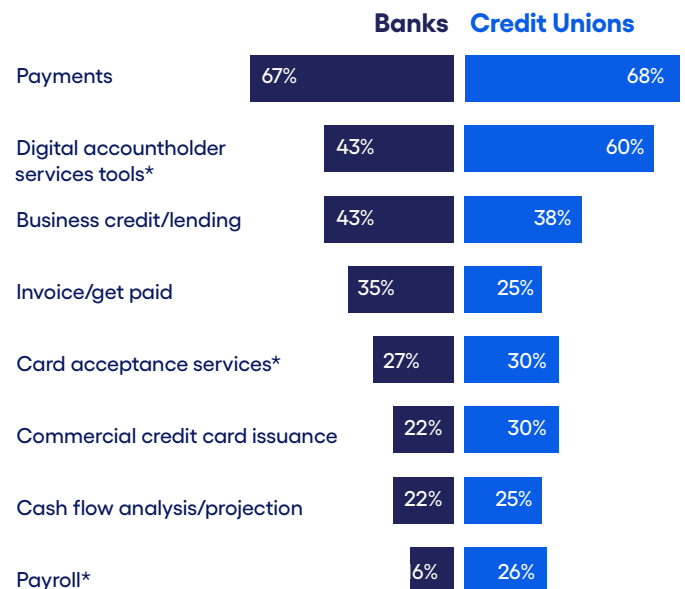
## Your Competitors Are Taking Notice

The industry is definitely taking notice of the size of this opportunity.

Jack Henry's recent Strategy Benchmark Survey revealed that 80% of financial institutions indicate they'll expand their service offering for small businesses over the next two years.<sup>8</sup> This is up from 65% in 2023 and 78% in 2024. In terms of the services that institutions indicate they plan to offer, payments lead the way by a significant margin.

Followed by self-service tools and lending, these plans represent an awareness of the large revenue and growth opportunities available in these areas.

## Small Business Services Institutions Are Planning to Add:



\*New

# how to form strong relationships with SMBs to help them thrive

Economic uncertainty is already impacting small businesses.

Small businesses are looking for bundled solutions and less costly suppliers to meet their needs. To attract and form robust long-lasting relationships with SMBs, you need to understand their unique challenges and address them.

## Pain Point: Payments

Payments tops the list of SMB challenges. Many of us have witnessed small businesses struggling with hardware “dongle” issues or experienced reluctance to take cards due to the fees involved. Specifically, SMBs have indicated that for them, the ideal payments system would:

- Accept all cards and wallets.
- Provide instant visibility of transactions.
- Transfer funds immediately.
- Be easy to use.
- Offer affordability.

A community and regional financial institution that can address these areas seamlessly has a significant opportunity to attract new SMB accountholders.

## Pain Point: Accounting and Cash-flow Forecasting

Small businesses want more bundled financial services to address the platform fragmentation that afflicts their approach to managing their

business finances. For example, although 95% of small businesses use digital tools, most have at least six different platforms.<sup>9</sup> Over 60% of SMBs seek accounting and payments services.<sup>10</sup>

A particular area of pain is cash flow management and forecasting, where less than half of small businesses are using digital tools. Although this is up from 22% in 2019, the rest are likely still using spreadsheets.<sup>11</sup>

The opportunity here is for you to have a system with payments information integrated or seamlessly extracted into an accounting system for easy or automatic reconciliations. This leads to accurate and effortless cash flow forecasting.

## Pain Point: Credit Financing

Cash flow management challenges lead directly to the SMB need for flexible credit solutions to proactively manage cash flow.

Currently, the number one source of credit financing by SMBs is credit cards, with 50% using business cards and another 23% using personal cards.<sup>12</sup> Another 27% use personal savings, while 25% access personal lines of credit.<sup>13</sup>

They often use their business or personal cards for the rewards program. But they still need unsecured business loans, secured or unsecured lines of credit, or home equity-based business loans.

## Pain Point: Not Being Treated Like a Business

Small business owners have told us that they find it difficult to actually schedule a meeting to talk about their accounts or finances.

Instead, some financial institutions treat small business owners like a retail account, calling them anytime – like calling a restaurant owner during the lunch rush.



Being open to scheduling calls or discussions is one way that financial institutions can begin to treat business owners in a way that works best for them. Scheduling professional business-to-business meetings to discuss accounts or financing is also key. Sometimes, serving SMBs effectively means being responsive to their needs on their terms.

SMB owners, both new and established, need support and advice.

They are attracted to institutions that offer these services. This is why bigger institutions sometimes have business centers in their branches that can offer everything from meeting rooms to copying services. Smaller institutions can address this need with dedicated business advisors always at the end of the line to help with everything from starting a new business to helping them get an EIN. This will attract and solidify their relationships with their SMB accountholders.

## creating an SMB technology ecosystem

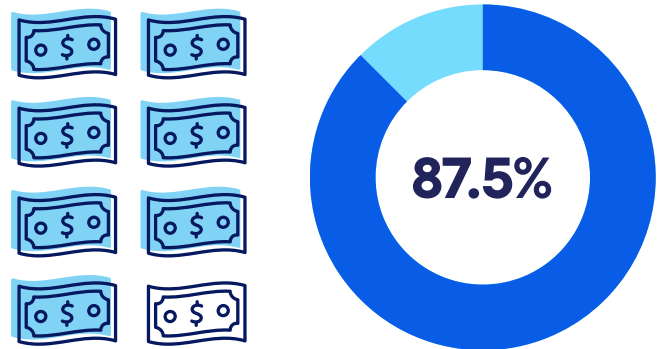
Addressing the enormous opportunity offered by the SMB market by addressing all the pain points outlined above can be enabled by creating a fully integrated technology ecosystem.

As mentioned, SMBs face a fragmented tech landscape that is both unwieldy and potentially prone to error.

Building a technology ecosystem around SMB accountholders will align products and services with small business needs and help them consolidate their financial management with a single financial institution. At the moment, fintech payment providers are capturing a larger share of deposits based on payment flow. For every \$8 deposited, \$7 stays with the third-party app.<sup>14</sup>

To counter this, community and regional financial institutions need to offer a fully integrated financial ecosystem that offers instant payment and deposits. This way, the full \$8 sits with the financial institution – remembering that business account deposit levels average nearly five times those of consumer deposits. In one example, an institution that moved to an integrated instant payments system experienced 87.5% deposits growth.<sup>15</sup>

**For every \$8 deposited, \$7 stayed in the third-party app**



An analyzed bank experienced only **\$80,000 a month deposited**, while **\$580,000 was not deposited**.

Based upon deposit analysis of 308 accounts that adopted Autobooks.

### An SMB Technology Roadmap

One way to think about a technology ecosystem is as a roadmap with you, the financial institution, at the center.

It's a circular roadmap because it has no beginning or end – it's an ongoing journey with the institution at the center and fully integrated with the SMB.

Such a roadmap integrates all the financial services the SMB needs, integrating all of the data they require,

while offering the institution a rich pool of data for personalization. This means you can create a fully integrated and personalized hub for the SMB, where they can manage every financial aspect of their business.

They'll be backed up by dedicated business advisors to help keep them on track to growth and success.



## narrow in on your SMB strategy

Want to know how SMB decision-makers think about payments? Or learn what types of payments services they really want? Find out in our [latest eBook](#).

For more information about Jack Henry, visit [jackhenry.com](https://jackhenry.com).

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