



Understanding Small and Medium Sized Businesses in the New Normal

Serving the evolving needs of
SMBs Post-COVID

J.

JUDI.AI

THE
FUTURIST
GROUP

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Introduction

Why you should read this report

Get in the heads of SMB owners and learn how to address their borrowing needs



RESILIENCY OF SMALL BUSINESSES IN THE US DESPITE THE PANDEMIC

Understand how small businesses have fared since 2019 and how they were affected by the pandemic. Get a sense of their view of the future and how you can play a role in servicing them.

GROWTH OPPORTUNITIES IN THE SMB MARKET

Learn which credit products they are looking for and why. More importantly, understand what they are looking for in a lender.

SHARING BANK DATA

Understand if SMBs will share bank data and in which circumstances. With ever increasing digital products and services, as well as the looming prospect of open banking, financial institutions must keep up with market needs and expectations.



Pandemic Effects on SMBs

Pandemic crisis pushes technology adoption

These unprecedented times created circumstances requiring organizations to show resiliency by reacting, adapting and evolving at lightning speed. COVID-19 turned everything upside down and sideways. SMBs saw their old normal turn into the new normal with technology at the forefront to help with survival.

Similarly, financial firms had to accelerate digital transformation efforts to literally meet with their customers as well as meeting their needs.

Pre to Post Crisis Timeline

OLD NORMAL	RECESSION	ADAPTATION	NEW NORMAL
<ul style="list-style-type: none"> Financial firms continue the slow heavy lifting of digital transformation SMBs proceed as usual running as fast as they can with the status quo 	<ul style="list-style-type: none"> Financial firms face a short-term operational crisis and revenue loss SMBs are shocked and in a wait-and-see approach to the depths of the pandemic 	<ul style="list-style-type: none"> Financial firms embraced digital technologies to transform products and services SMBs change and adopt technologies with blistering speed to stay alive and thrive 	<ul style="list-style-type: none"> Financial firms race to adopt technology and manage overweighted deposit balances Nimble SMBs push their financial service providers to meet their growth needs
2019	early2020	late2020	2021

The pandemic hit hard...but not all were negatively affected

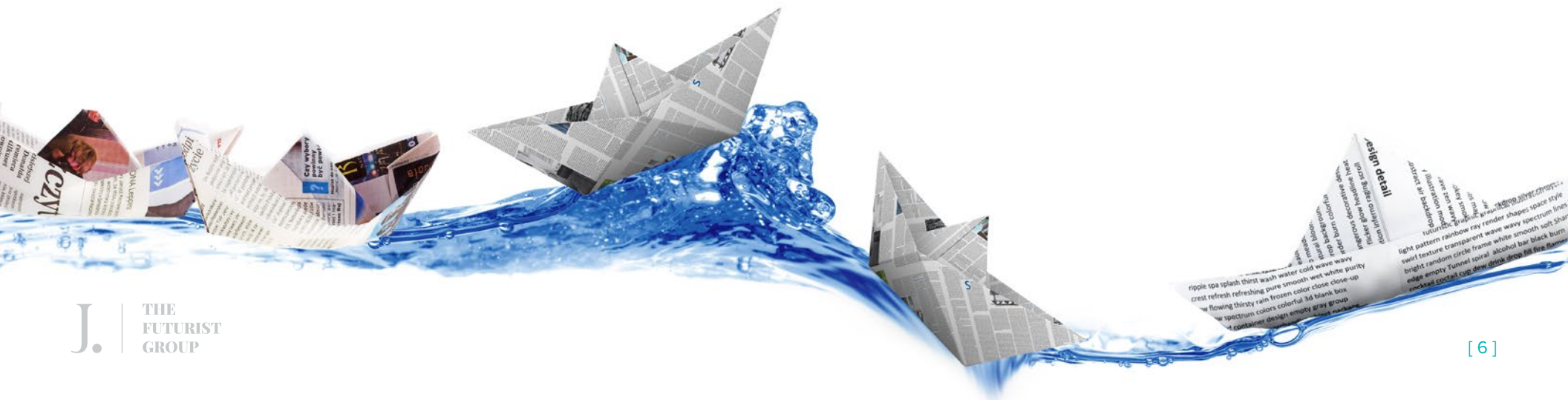
43%
SINKING

42%
STAYING
AFLOAT

15%
RIDING
THE WAVE

As would be expected, many small businesses were hit hard by the pandemic, even causing some to close permanently. Of the ones that survived into 2021, here is what we found:

Many are still struggling — 43% had a drop in revenues in 2020 compared to 2019. The same proportion (42%) had no change to their revenues. A fortunate minority (15%) actually benefited from the pandemic with an increase in revenues.



Many larger businesses benefited from the pandemic

Size matters when you are in rough waters

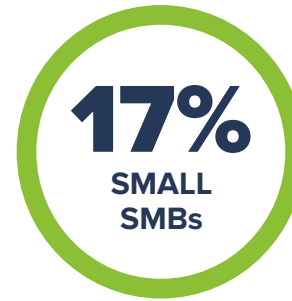
Larger businesses with revenues of \$1M or more were more likely to have benefited from the pandemic with increased revenues versus small businesses with revenues less than \$1M (24% versus 15%). Having more resources enabled more resiliency for some SMBs and greater ability to react to the changing circumstances created by the pandemic. Smaller businesses were more challenged to adapt because of less resources.



24%
INCREASED
REVENUES

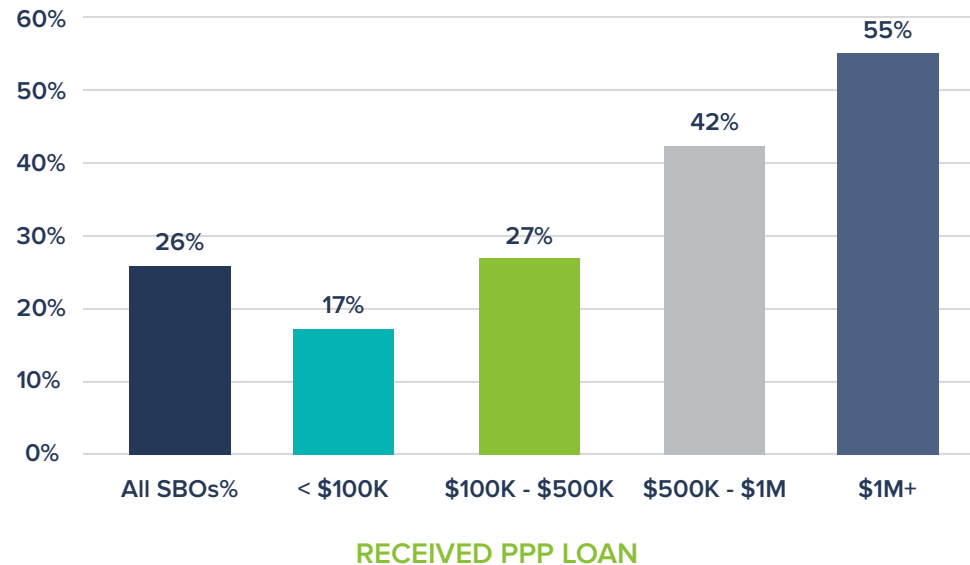


Paycheck Protection Program (PPP) benefited some more than others

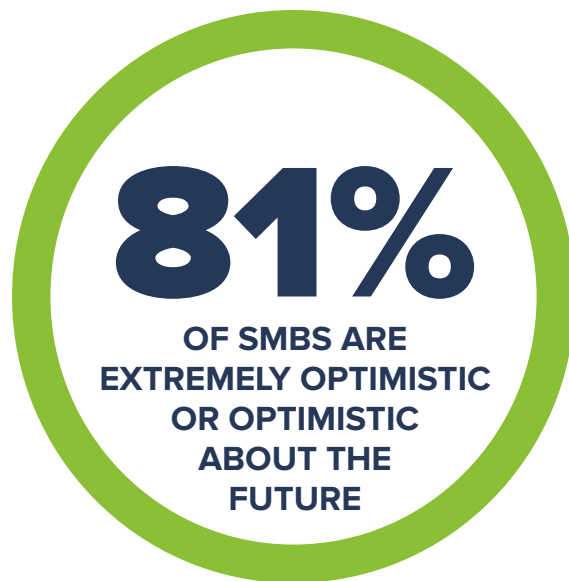


» Larger SMBs are more than 3X as likely to have received a PPP loan.

» Only 17% of businesses with revenues less than \$100K received a PPP loan compared to 55% of businesses with revenues of \$1M+.



Despite the pandemic the future looks bright



One-in-three SMBs are “extremely optimistic” coming out of a highly unpredictable market situations due to the pandemic. Only a very small proportion (4%) are “extremely worried” with the balance being “lukewarm” (15%).

Extreme optimism grows with the size of the business — SMBs with revenues of \$500K+ are much more likely to be extremely optimistic than those with lower revenues (45% versus 32%).

The smallest of small businesses appear to feel the most vulnerable. Lack of capital is often cited as the primary challenge of these micro businesses.





Cash Flow Challenge

Cash flow is **ALWAYS** a challenge

28%

OF SMBS ARE CONSTANTLY
STRUGGLING TO MANAGE
THEIR CASH FLOW



Historically, cash flow is the leading reasons that businesses fail. Cash flow is known to be a major challenge for small businesses. In our survey, 28% of businesses reported having cash flow concerns, consistent across all revenue segments.

MORE MONEY, MORE PROBLEMS

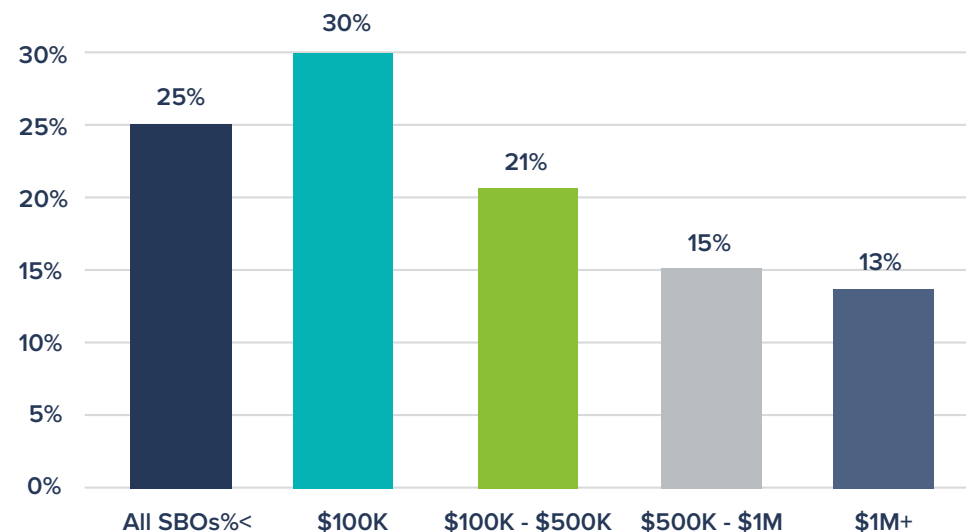
While size has its benefits, it also brings bigger problems. Larger businesses find cash flow management even more of an issue with 39% of those with revenues of \$1M+ struggle with cash flow.

Many SMBs want access to tools to manage their cash flow



7.5 million SMBs in the USA are looking for financial tools.

One-in-four SMBs (25%) do not feel they have the tools they need to be successful. This translates to 7.5 million SMBs in the USA looking for financial tools to help them run their business. The need for financial tools among smaller businesses is double that of larger businesses (30% versus 13%).



DO NOT HAVE ACCESS TO THE FINANCIAL TOOLS
NEEDED TO BE SUCCESSFUL



Importance of SMB Access to Credit

SMBs need more access to credit

41%

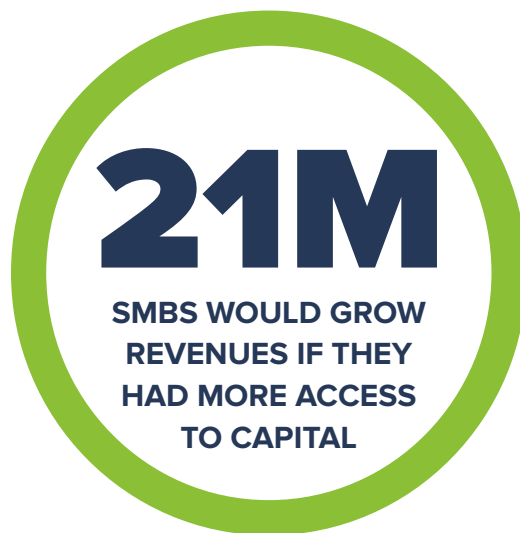
OF SMBS NEED MORE
ACCESS TO CREDIT



The need to access credit increases as a business grows

Two in five (41%) small businesses need more access to credit which represents 12M small businesses. The need to access credit increases as a business grows with 48% of businesses with revenues of \$500K+ needing more access to credit compared to 39% of businesses with revenues of less than \$500K.

Access to credit would increase SMB revenues



65% of small businesses would grow their revenues with more access to capital

This represents almost 21 million small businesses. If these ~21 million SMBs could access capital, the positive impact on the economy would be massive. This is also a massive opportunity for lenders.

- » 32% of SMBs (10M+ businesses) feel access to capital could increase their revenues by more than 10%
- » 33% of SMBs (10M+ businesses) feel access to capital could increase their revenues by less than 10%



Choosing a Lender

Bottom line drives the choice of an SMB lender

#1

**INTEREST RATE OR
COST OF LOAN**

(47% ranked as #1)

#2

**AMOUNT LENDER IS
WILLING TO GIVE**

(33% ranked as #2)

The most important factor for choosing a lender is cost of capital.

For small business owners every dollar counts. It makes sense then that the most important factor for them in choosing a lender is cost of capital. Similarly, the amount a lender is willing to lend is also a top driver. Cost of capital is a moot point if you can't get the amount you need. All sizes of businesses feel the same about cost and amount being the two most important factors in choosing a lender. This gives deposit taking institutions with a low cost of capital a significant advantage in this market.



Customer experience also drives lender selection



EASE OF APPLICATION PROCESS

(29% ranked as #3)

SPEED OF DECISION

(27% ranked as #4)

CUSTOMER SERVICE / RELATIONSHIP

(28% ranked as #5)



A more seamless process enabled by technology creates a win-win for the customer.

Customer experience elements — ease of application process, speed of decision and customer service — are collectively ranked as the most important drivers for selecting a lender by 38% of SMBs. Dealing with onerous processes and chasing down data requirements takes time that most small business owners lack. Close behind is an improved customer experience when applying for a loan. For many the process and customer experience are closely intertwined. A more seamless process enabled by technology creates a win-win for the customer.



Credit Through Credit Cards

Business credit cards have room to grow

42%

**OF SMBS DON'T
HAVE A BUSINESS
CREDIT CARD**



Credit card providers and lenders have a huge opportunity to convert small businesses into a business credit card.

Way too many small business are using their personal credit card for business expenses instead of a business credit card. The use of personal credit cards for small businesses is problematic on many levels with blurring between personal and business expenses creating complexity for cash flow management, timely accounting and tax filing. Credit card providers and lenders have a huge opportunity to convert small businesses into a business credit card. This is especially true for businesses under \$500K in revenues.

SMBs are looking for business credit cards



One in four small businesses (23%) are likely to get a new business credit card in the next 12 months. Businesses with revenues of \$1M or more are likely (33%) to get business credit card demonstrating that businesses often require more than one credit card to fill their needs.

Reasons to acquire a business credit card?

1. PRIMARY DRIVERS ARE FINANCIAL

Cash back (42%), points (35%), save interest (21%)

2. SECONDARY DRIVERS RELATE TO CREDIT

Build or establish (25%), increase credit line (32%), support plans for growth (21%)

3. TERTIARY DRIVERS RELATE TO EASE OF MANAGEMENT

Benefits, tools, services for business owners (25%), easier record keeping (19%), build or establish (25%)

Financial institutions and card providers have lots of levers to attract small business clients beyond the financial. This includes providing benefits, tools and services to help small business owners including using cards for cash flow management and separation of their personal and business worlds.



Open Banking and Read-Only Data

Small businesses are open to sharing data



Nearly half of SMB owners would grant read-only access to bank data for the right reasons

The view from small business owners shows that nearly half would grant read-only access to their accounts depending on how the data would be used and the perceived benefits to the business. Support of open banking has continued to trend up over the past few years and will continue to increase.

- » **Business loan and/or credit card approval (46%)**
- » **Tax preparation (46%)**
- » **Tailored financial offers (43%)**
- » **Improve the quality of customer service (41%)**
- » **Centralized view and analysis of business accounts (39%)**

Open banking is a hot topic. Customers benefit from more choice, customized products/services and more integrated solutions to their financial needs. Financial institutions can benefit with a more holistic view of their customers creating opportunities for growth and an increased ability to attract new customers. The market is already responding as Fintechs provide safe, secure workarounds for access to data in advance of a system wide open banking protocol.

Larger SMBs are more likely to share bank data

60% of large SMBs would share bank data to expedite loans



Getting access to capital is a strong motivator for providing read only access to bank transactions associated with a business, especially for larger businesses. Six-out-of-ten SMBs with \$1M+ in revenue would provide access to this data in order to expedite their business loan and/or credit card approval process

This aligns with a greater need for capital for these larger SMBs.



Conclusions

Our research paints a positive picture of the future

Small business owners are resilient... riding out the unpredictable changing waves of the pandemic.

Main take-aways:

- » Many small businesses survived the pandemic — some even thrived!
- » The PPP program helped SMBs of all sizes but larger ones benefited most.
- » Small businesses are very optimistic about the future.
- » SMBs are looking for loans and business credit cards to help fuel their growth.
- » Lenders need to provide cost effective loans but with a fast, user friendly process.
- » Credit cards providers play an important role in helping to build credit and provide valuable tools for cash flow management.
- » SMBs, particularly the largest of them, are quite open to providing read only access to enable the application process.

The pandemic shook the ground under financial institutions and small businesses. The new normal is resulting in a more technologically enabled SMB market where firms providing credit can take advantage of SMBs looking for partners to help them fuel their growth. SMB lending has never been more primed to help lenders diversify their portfolios into this potentially lucrative market.

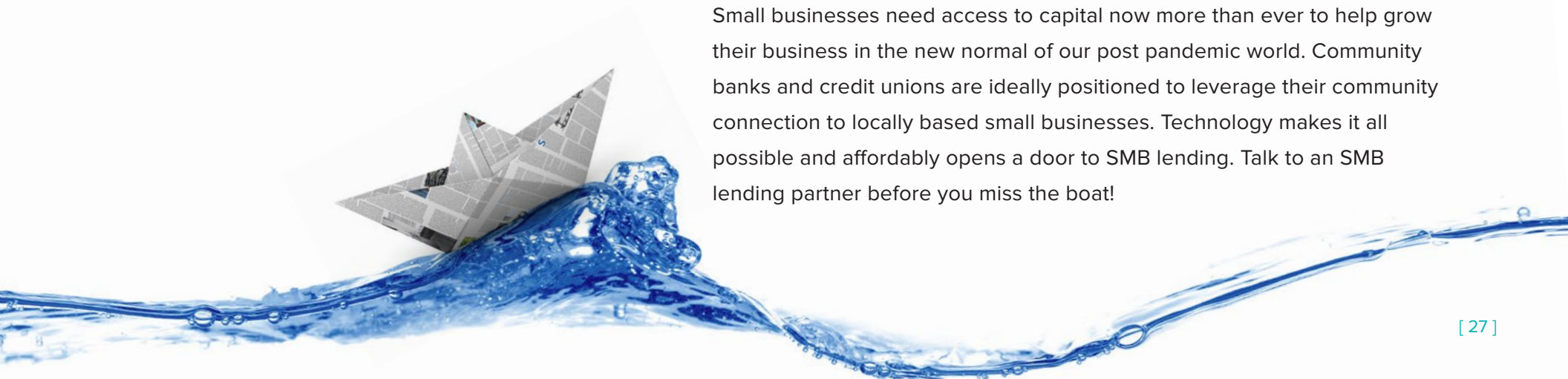
What's your game plan?

The small business market is primed for explosive growth.
Catch the wave.

Next steps:

- » Land and expand into the SMB customer segment - but do so wisely.
- » Leverage technology to get scale and efficiency.
- » Help small businesses to build credit through business credit cards, lines of credit and loans.
- » Automated cash flow analysis is essential to determining who to lend to and how much.
- » Leverage underutilized deposit balances through SMB lending
- » Community banks and credit unions have a lower cost of capital, giving them an advantage over fintechs and alternative lenders.
- » Get on an even playing field with the big banks and fintechs — obtain the same scale and efficiency through fintech partnerships.

Small businesses need access to capital now more than ever to help grow their business in the new normal of our post pandemic world. Community banks and credit unions are ideally positioned to leverage their community connection to locally based small businesses. Technology makes it all possible and affordably opens a door to SMB lending. Talk to an SMB lending partner before you miss the boat!



Methodology

Derived from in-depth research and thousands of interviews with small businesses in the USA.

Quantitative Survey with thousands of SMBs from around the USA.

HIGHLY REPUTABLE SAMPLE SOURCE

The sample for small businesses was obtained through the highly regarded company, The Futurist Group.

REPRESENTATIVE BY NUMBER OF EMPLOYEES

The survey included small businesses from the mighty sole proprietor doing it all themselves through to small businesses of every size whether 1-10 employees or tens of employees and everything in-between.

REPRESENTATIVE BY ANNUAL REVENUES

Hundreds of interviews within each revenue band representing the broad swath of SMBs: less than \$100K, \$100-\$500K, \$500K-<\$1M and \$1M+.

REPRESENTATIVE BY GEOGRAPHY

The survey covered the entire country from the NorthEast, South, Midwest and West, ensuring all regional were included.

MORE THAN FIVE THOUSAND PRODUCT REVIEWS

The study included thousands of SMBs and more than 5,000 SMB specific product reviews.

Contact our co-sponsor – The Futurist Group – to learn more about their research on different product offerings for SMBs.

JUDI.AI

TRANSFORMING SMB LENDING

JUDI.AI is a small business lending platform enabling lenders to assess risk efficiently and effectively, as well as monitor and manage existing loan books. Our real-time credit decisioning platform augments business rules with machine learning to drive automation of the credit review process by ingesting and processing cash flow data to improve credit scoring. JUDI is a pioneer in the analysis of cash flow data and automated credit decisioning.

JUDI.AI pledges 1% of our equity, revenue, time and product to charities of our customers' choice.

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WWW.JUDI.AI

The Futurist Group

DEVELOP WINNING PRODUCTS

The Futurist Group helps identify what's next in payments, using modern technology, frictionless consumer engagement, and intelligent analytics to provide answers to the most important and forward-looking questions about the future of payments.

Dedicated to the financial services space, The Futurist Group was founded by an experienced team of professionals from consumer intelligence, fintech, banking, analytics, and payments.

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