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Winning Market Share Among Millennial-Run Small Businesses

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APITURE®

Introduction

Meeting the changing needs of small businesses remains a challenge for most financial institutions (FIs). As a result, small businesses are less loyal than they were in the past, and 37% of them state they definitely or probably will switch FIs in the next two years. This number has grown dramatically since 2023, when it was 19%.¹ More payment options, online tools, automation, and real-time payment options are among the top items they look for when selecting a new banking partner.

Growing market share should be a part of every community FI's strategy to capitalize on this expected market movement and attrition levels. Expected shifts in primary institutions offer the opportunity for community FIs to grow their market share beyond the approximately 13% they hold today. The opportunity is especially high among millennial-run small businesses, of which 44% are likely to switch institutions. This millennial segment, which represents the future of the industry, is one that community FIs have not traditionally done well with (approximately 6% bank with community banks and 8% with credit unions). More than 60% of those businesses bank with a big four bank (Bank of America, Citibank, JPMorgan Chase, and Wells Fargo). Success requires the right products, services, user experience, and technology.

This white paper, commissioned by Apiture but independently authored by Datos Insights, examines millennial-run small-business expectations and recommends where community FIs should focus to best position themselves for greater success. It explores areas such as payment preferences, invoicing and money management tools, interest in artificial intelligence (AI) use cases, and other expected digital banking capabilities.

Methodology

This paper is based primarily on the results of a Q1 2025 Datos Insights online survey of 1,004 U.S.-based small businesses, specifically the responses of the 460 millennial-run businesses that participated. "Millennial-run small businesses" are defined as those businesses in which the person who manages most of the company's financial business is a millennial (age 29 to 44).

¹ Datos Insights Q1 2023 survey of 1,006 U.S. small businesses generating between US\$100,000 and US\$20 million in annual revenue

In this paper, “small businesses” are defined as those businesses generating between US\$100,000 and US\$20 million in annual revenue. This revenue range extends beyond how some banks or credit unions may define the segment, but it represents a large opportunity for FIs. Businesses generating less than US\$100,000 in annual revenue have intentionally been left out, as their banking needs often mirror those of consumers.

A survey of this size offers a 3-point margin of error at a 95% confidence level; statistical tests for differences between segments were conducted at either the 95% or 90% level of confidence, depending on sample size. This paper’s content also leverages Datos Insights’ research of banks’ and credit unions’ small-business offerings and strategies, along with the author’s extensive knowledge of the market.

Millennial-Run Small Businesses

The opportunity has never been greater for community FIs. More than half (55%) of millennial-run small businesses state they would prefer to bank with a community FI if the institution offered similar products and capabilities to a large bank. An additional 35% would consider doing so. While this seems like a challenging ask, it is within reach in the small-business banking space. Technology has evolved significantly over the last few years; many vendor-offered digital platforms are now robust enough to enable smaller institutions to compete head-to-head with their larger bank counterparts for small-business customers. While community FIs don't have deep pockets, investing in the right technologies and prioritizing the most critical capabilities will lead to success.

Offering modern, robust digital banking platforms is central to community FIs' success. Ninety-five percent of millennial small businesses bank online, and more than 70% bank via a mobile device. They enjoy the convenience of "anytime, anywhere" banking offered by digital platforms, despite 92% of them primarily banking during regular business hours (Monday to Friday, 9 to 5). Not surprisingly, millennials are also fast adopters of technology. They grew up with it and are accustomed to using it in most aspects of their lives.

Among those surveyed, 49% of millennial-run businesses generally adopt new technology products as soon as they are released. Their technological expectations are high, but so is their potential adoption of new products. Thus, if an FI can clearly demonstrate the value of a new product, they will likely get a quick return on investment from these businesses.

Achieving Success With Millennial-Run Businesses

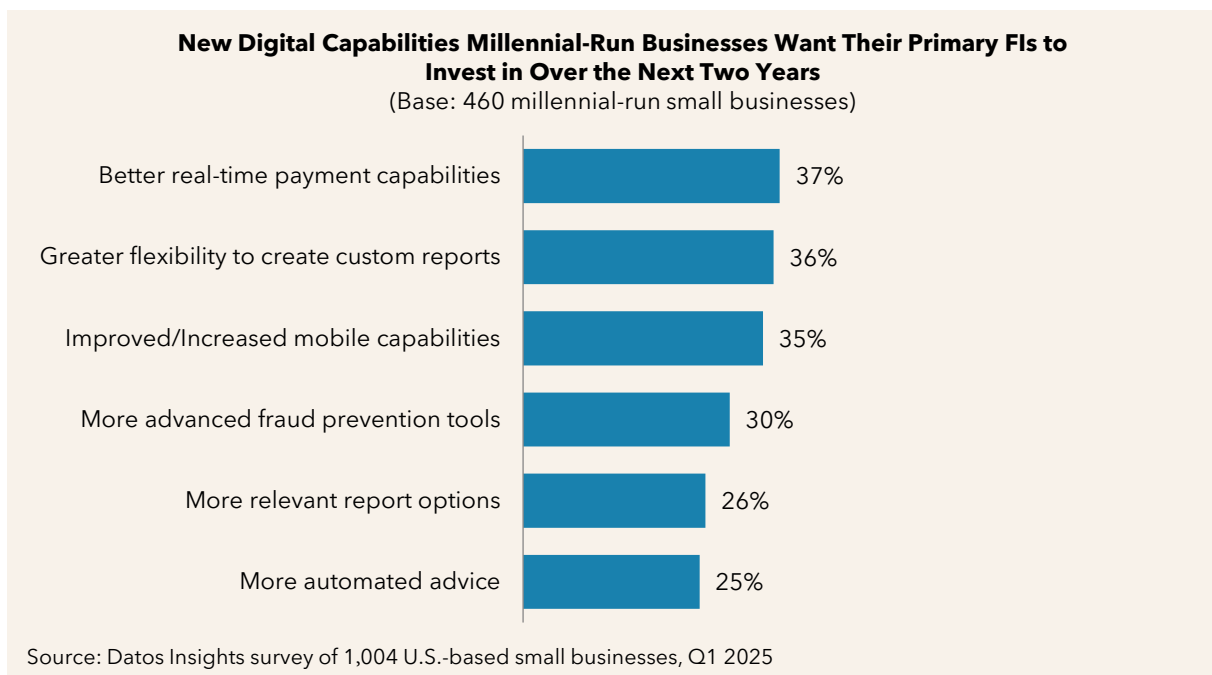
Given their expectations for technology and their willingness to use it, it is recommended that community FIs do the following to better position themselves for success with millennial-run small-business customers/members:

- Continue investing in digital banking capabilities
- Offer more payment options
- Integrate with tools that deliver greater operational efficiency
- Ensure user-friendly experiences
- Invest in AI

Continue Investing in Digital Banking Capabilities

The business banking space and the technology that supports it are moving at a quick pace. The expectation that an FI keeps up is especially high for fast adopters of technology like millennials. Businesses run by those individuals value speed, flexibility, and robust functionality. Thus, they want to see their FIs continuing to invest in capabilities such as real-time payments, enhanced reporting that is both flexible and relevant, and more advanced fraud prevention tools to safeguard their funds. They require easy access to needed information and high levels of data transparency. They also value advice. Given their comfort with technology, it is not surprising that they want to see investments in automated advice. Finally, while the online channel is often their preferred channel for initiating business transactions, high mobile adoption requires robust mobile capabilities. This last item is an area in which many community FIs have fallen behind and offer limited functionality (Figure 1).

Figure 1: Millennial-Run Small-Business Priorities for FI Digital Investment

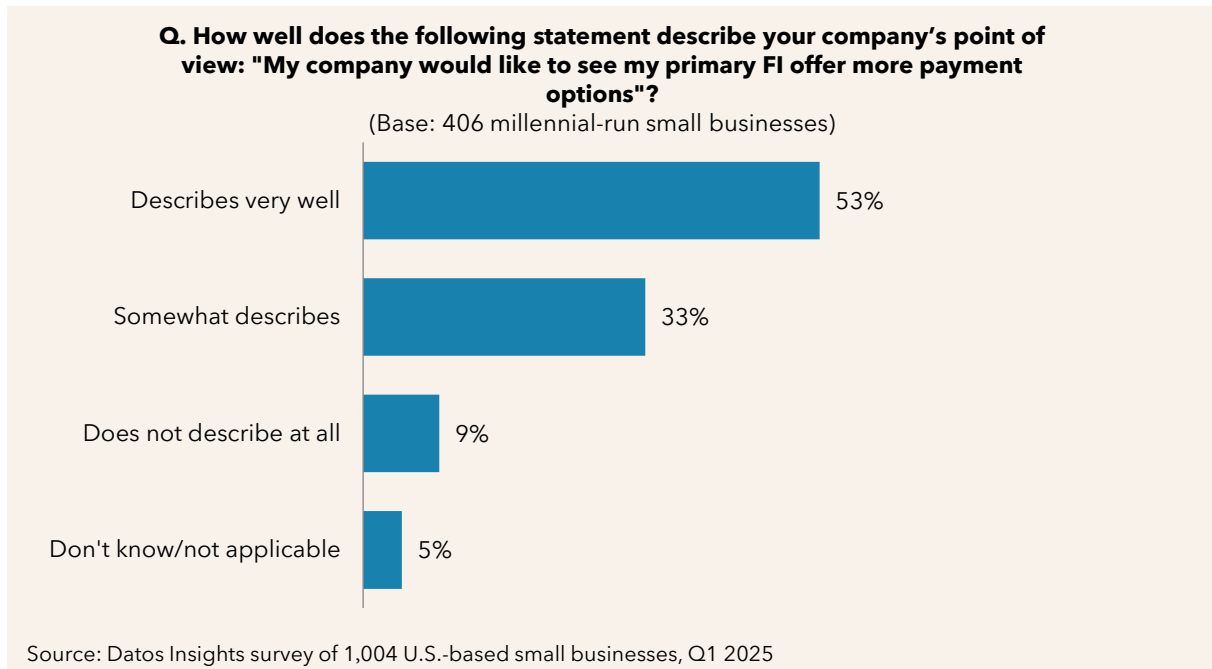


Offer More Payment Options

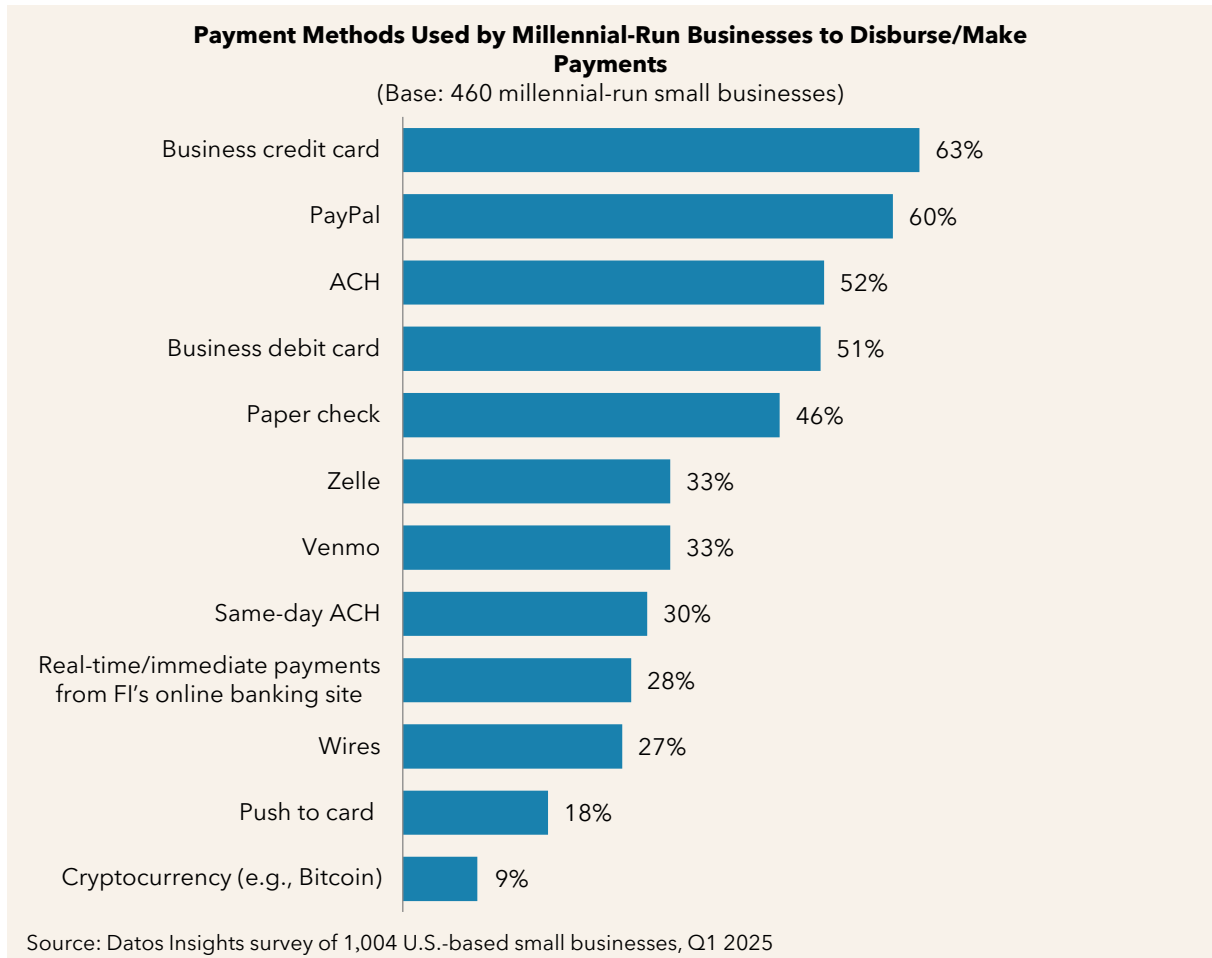
As FIs invest in their digital banking capabilities, payments should be a central focus. Winning a small business's payments business is crucial because of its stickiness. The institution that owns its payment business is almost always its primary FI.

The number of payment options continues to grow, along with the volume of payments being made. FIs need to keep up with new payment options while also continuing to enhance the overall efficiency of more traditional payment methods. Of millennial-run small businesses surveyed, 53% want to see their FI offer more payment options, while an additional 33% feel that way to some degree (Figure 2).

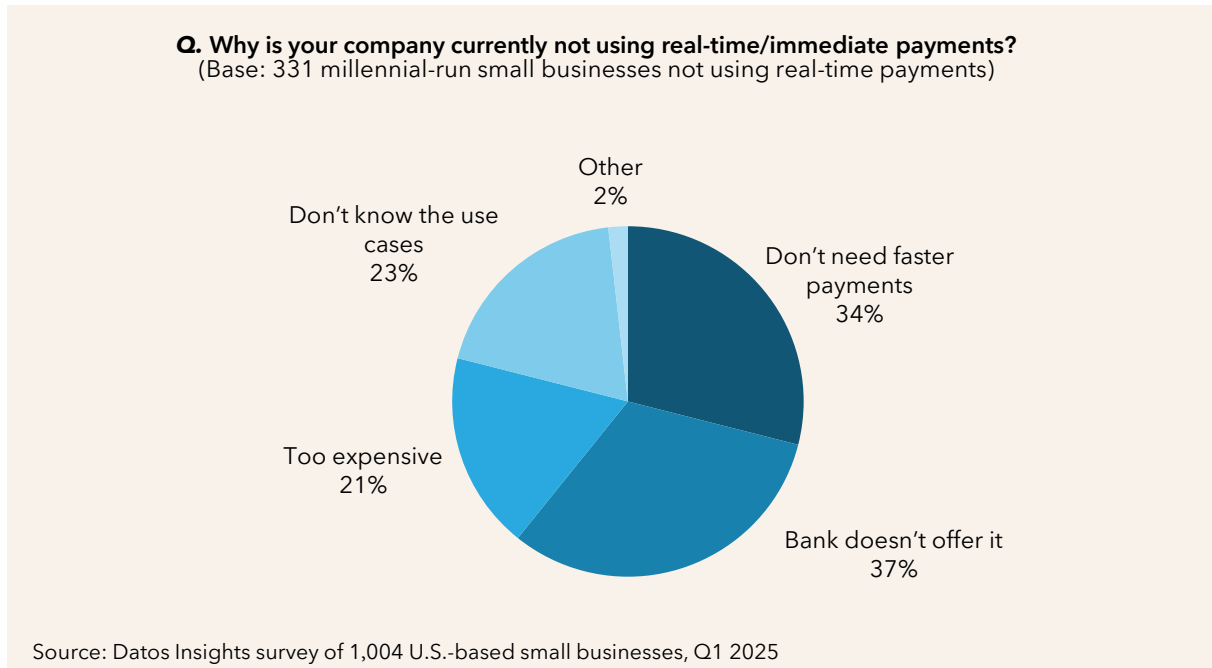
Figure 2: Desire for More Payment Options



Millennial-run businesses are showing a high willingness to utilize the many options available. Business credit cards and PayPal enjoy the highest adoption from this group (Figure 3). Paper checks, on the other hand, continue to see a decline in volume across the industry while still maintaining a role in many businesses' payment strategies. Paper check usage among millennial-run small businesses (46%) is even lower than that of other small businesses (58%).

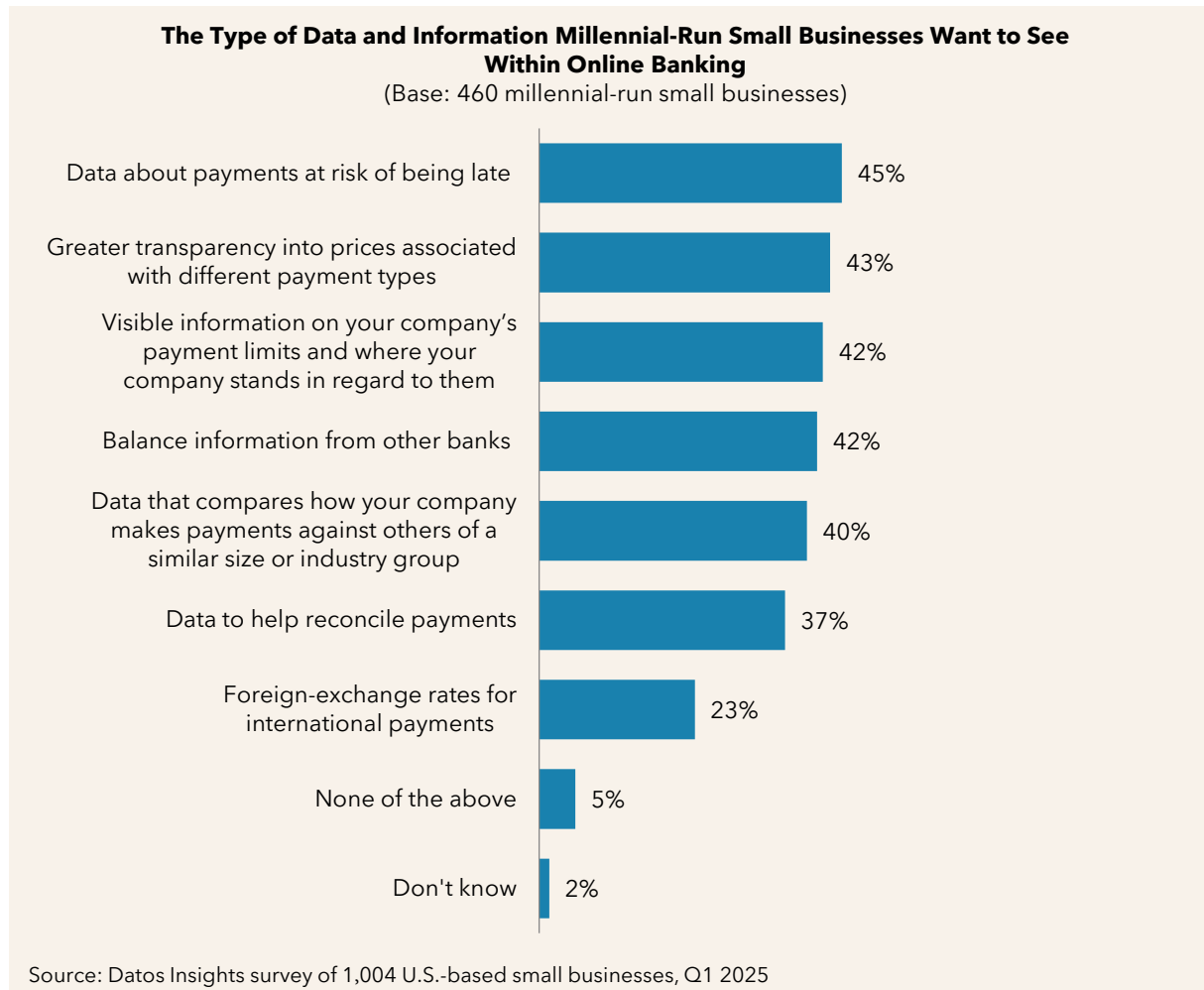
Figure 3: Payment Adoption by Type

While 50% of millennial-run businesses would switch FIs for more payment options, 38% would do so for real-time/immediate payment capabilities. Among those businesses not yet using real-time/immediate payments, 37% aren't doing so because their bank or credit union doesn't offer it (Figure 4). Community FIs taking a wait-and-see approach in this area are not only missing out on opportunities to deepen small-business relationships but are also putting themselves at risk of losing those clients/members.

Figure 4: Reasons for Not Using Real-Time/Immediate Payments

Continuing to add new payment options to the mix runs the risk of confusing customers/members. FIs need to continue focusing on customer/member education to ensure this is not happening. Fortunately, 65% of millennial-run small businesses are confident about their payment choices. However, 26% admit to being confused by the many options. Rules-based engines to guide businesses through the selection process may help in this area.

In addition to broadening their breadth of payment options, community FIs should also look to improve the data attached to those payments. Millennial-run small businesses want to see more payment information and transparency to help them more effectively manage their payments and finances in general. Data about payments at risk of being late, as well as basic information such as the price of different payments and payment limits, are all valued by these businesses. While not yet commonly available, forward-looking institutions may also consider offering payment benchmark information in the future to inform small businesses how their payment activity compares to others like them (Figure 5).

Figure 5: The Desire for Additional Payment Data

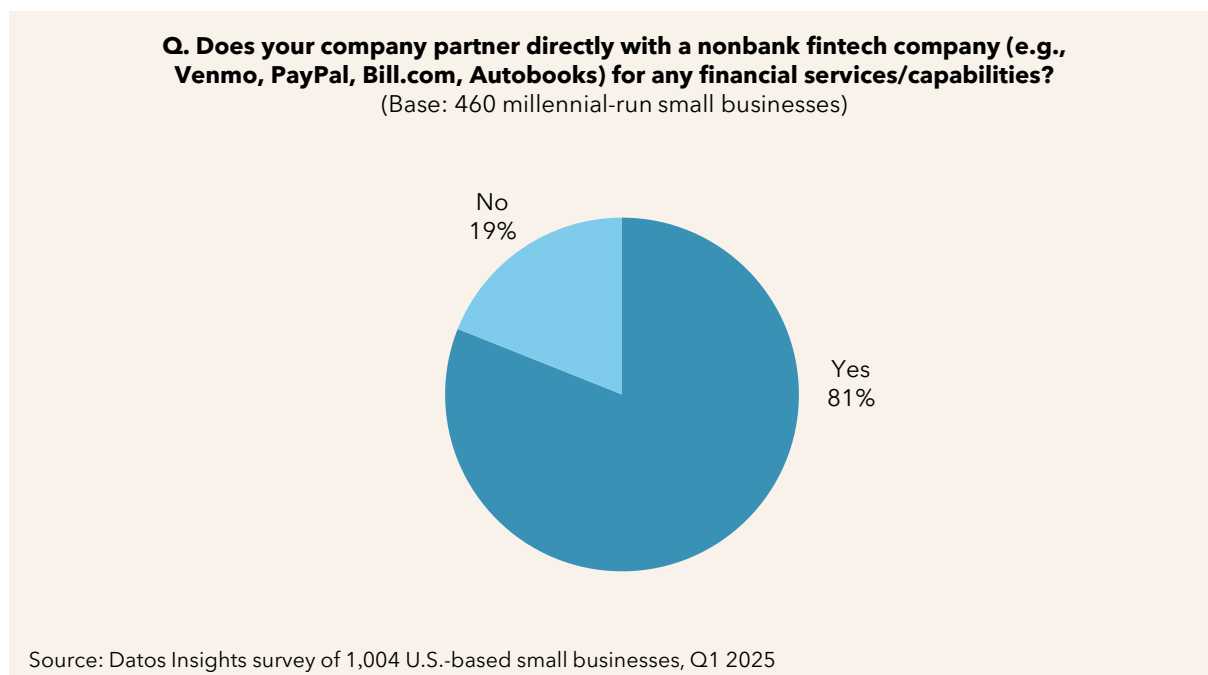
Integrate With Tools That Deliver Operational Efficiency

Small businesses, in general, are showing a greater willingness to pay for products that save them time, increase convenience, and help them operate more efficiently. Thus, 73% are willing to pay for banking products and services that help their business more effectively and accurately manage its finances. Only 9% of millennials state they are not willing to pay for banking products and services. This represents a sharp contrast from a common industry belief across FIs that small businesses are not willing to pay for products.

While this willingness to pay is good news for FIs, many are at risk of not benefitting from it. Of millennial-run small businesses surveyed, 47% believe fintech companies offer more products and services that their company is willing to pay for than their FI. An additional 36% agree to some degree. Banks and credit unions are not moving fast enough with the tools these businesses need, which is why 81% of millennial-run small businesses are

partnering directly with nonbank fintech companies for financial services/capabilities, especially faster payments, payroll, invoicing, and money management tools (Figure 6). Millennial-run small businesses are more likely to go beyond their banks or credit unions than other small businesses (81% vs. 69%).

Figure 6: Likelihood to Partner with Fintechs



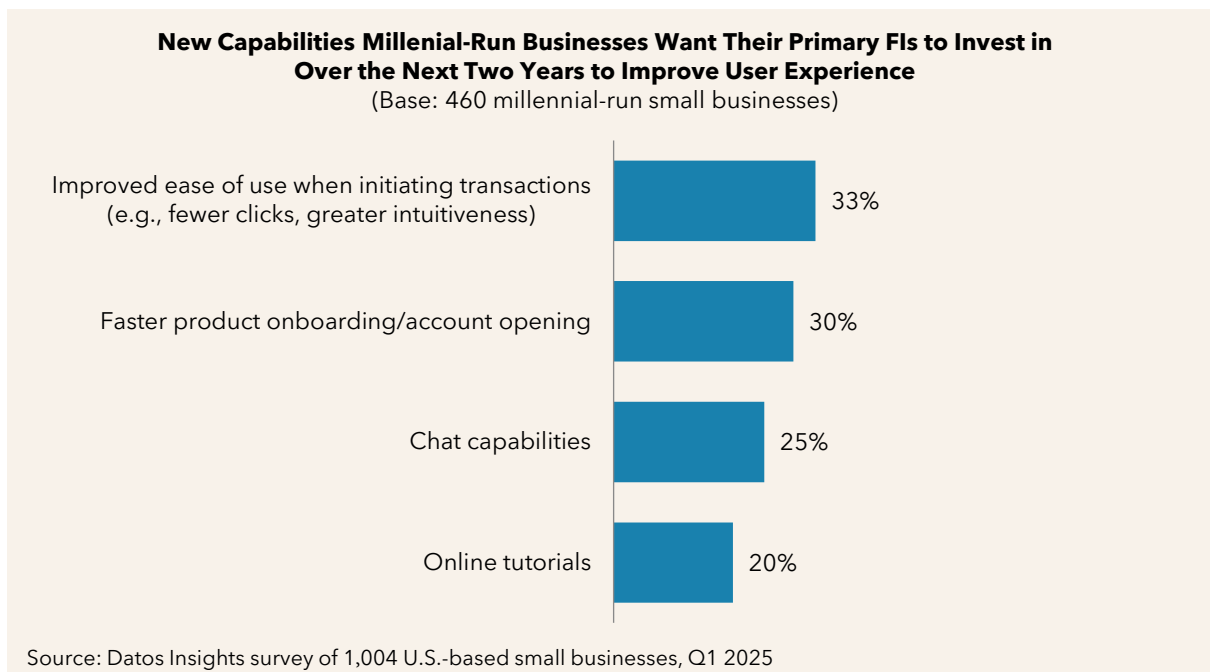
Community FIs must invest or partner in these areas to secure their business and capture the revenue businesses are willing to spend. They should consider working with technology providers with established fintech partnerships and integrations in key areas for faster time to market.

In addition to offering tight integration with tools such as payroll, invoicing, and money management, FIs should also ensure their digital banking platforms tightly integrate and sync with the accounting systems commonly used by small businesses. While QuickBooks from Intuit is the most common, others, as well as industry-specific tools, are also becoming popular. Millennial-run small businesses not only want these systems synced with their online banking platforms, but 36% of them also want to see their primary FI invest more in the ability to enable them to perform transactions such as payment initiation.

Ensure User-Friendly Experiences

Offering robust functionality is essential, as is a positive user experience. Thirty-seven percent of millennial-run small businesses would switch FIs for a more modern digital experience. Modern means user-friendly and intuitive, with few clicks to initiate desired transactions or to access needed information. It also means faster access to needed capabilities through efficient onboarding. Both are areas in which about one-third of millennial-run small businesses would like to see their primary FIs investing more (Figure 7).

Figure 7: Ways to Improve User Experience



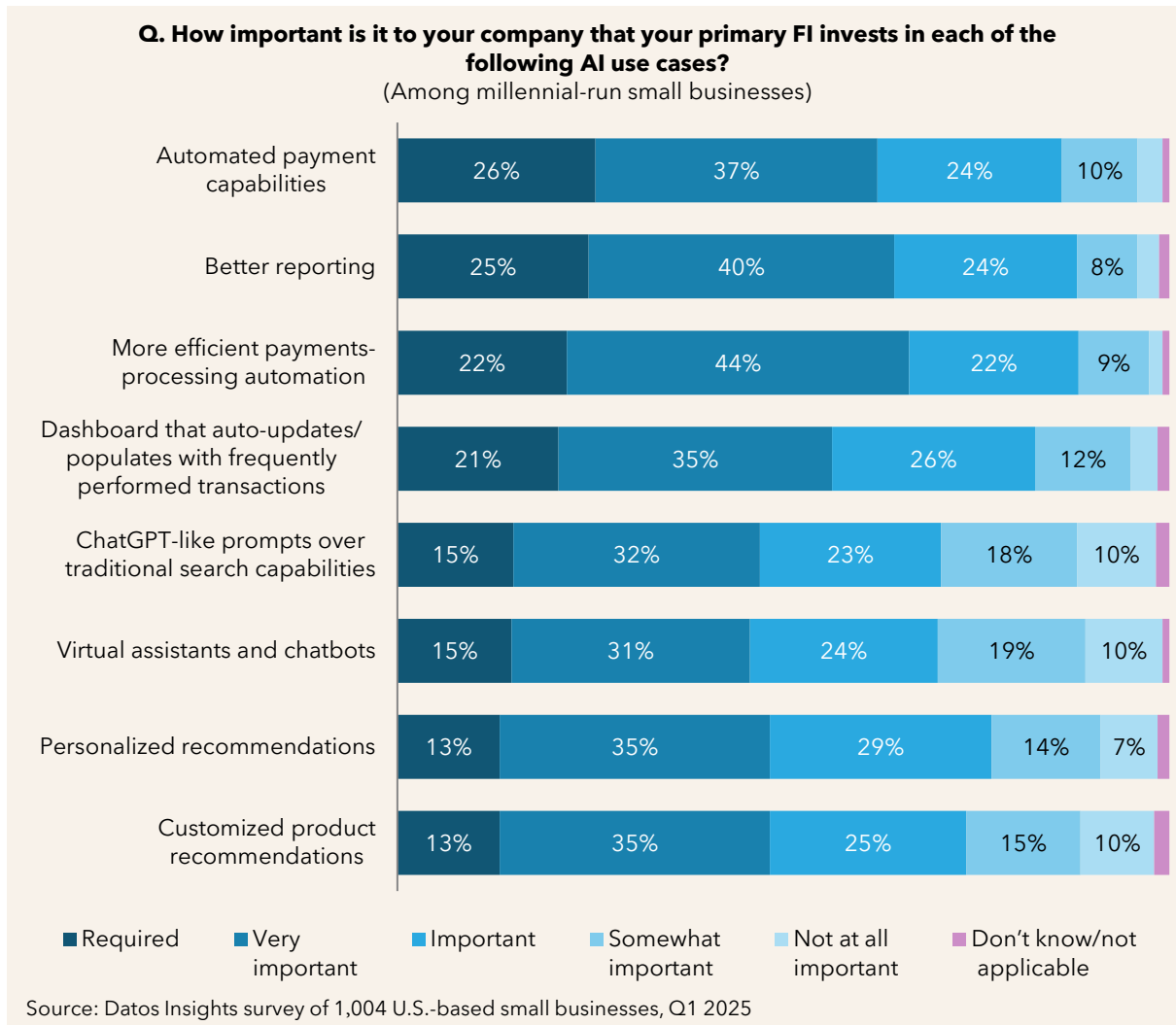
Other areas in which user experience can commonly be improved include the addition of chat capabilities for easier communication with bankers when customers/members have questions and online tutorials for self-help. Convenient ways to quickly address problems significantly improve the overall user experience.

Invest in AI

Most bankers feel AI is still in the early stages within business banking and believe its impact has been minimal to date. That is expected to change considerably over the next three years. As such, FIs need to be investing in this area now not only to remain competitive, but also to continue to meet customer/member expectations. Millennial-run small businesses especially value the improved automation, reporting, and efficiency that

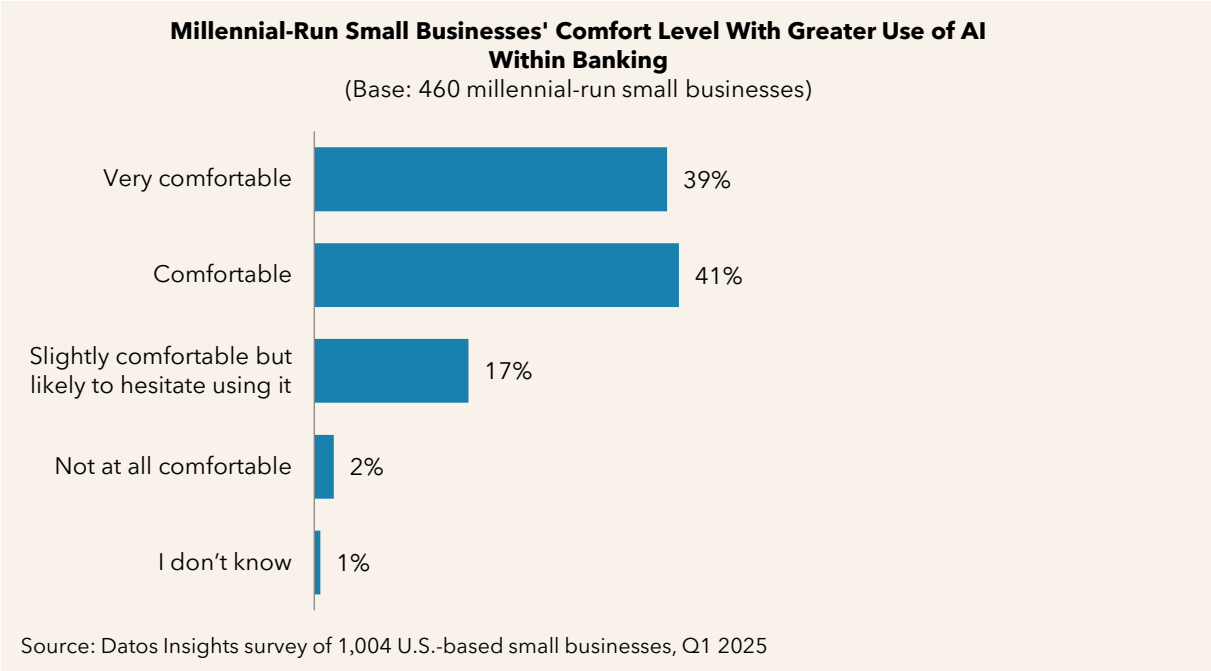
AI promises. They would like to see AI leveraged to automate payments better (by offering reminders of bills and outstanding payments) and help customers/members select the right payment tools (Figure 8).

Figure 8: Importance of AI to Millennial-Run Businesses



In fact, despite many FIs having concerns about customer-facing AI, small businesses are comfortable with the technology and welcome it, especially millennial-run small businesses. Thirty-nine percent of millennial-run businesses describe themselves as very comfortable with greater use of AI within banking; 25% of nonmillennial-run small businesses share this sentiment (Figure 9).

Figure 9: Comfort With Greater Use of AI Within Banking



Conclusion

Community FIs have not historically seen a great deal of success winning the business of millennial-run small businesses. Fortunately, history does not need to repeat itself. A huge opportunity exists for these smaller FIs to grow their market share and take advantage of a forecasted rise in attrition among these customers/members.

However, community FIs need to make smart investments to achieve success. They must continually invest in their digital platforms to ensure they have the right capabilities, user experience, and points of integration to needed tools. They must also pay attention to current market expectations while preparing for future needs, such as new payment types and use cases for AI. Finally, they must select their technology partners wisely. The right technology partner not only delivers best-in-class capabilities and a forward-looking roadmap but also challenges the status quo and ensures its bank and credit union clients are best positioned for success.

The small-business banking space is changing at an incredible pace, and the bar for success continues to rise. Community FIs must keep up or risk losing one of their most important customer/member segments and streams of revenue.

About Apiture

Apiture delivers award-winning digital banking solutions to banks and credit unions throughout the U.S. Its flexible, highly configurable solutions meet a wide range of FIs' needs, from leveling the playing field with larger institutions to supporting growth through innovative data intelligence and embedded banking strategies. With Apiture's API-first approach, its clients can maximize the capabilities of their platform while preserving a seamless user experience. Its exclusive focus on digital banking—along with a team with hundreds of years of collective experience working at U.S. financial institutions—means it's dedicated to meeting the unique needs of its clients while providing a level of support that's unmatched in the industry. Apiture is headquartered in Wilmington, North Carolina, with offices in Austin, Texas. To learn more, visit www.apiture.com.

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