

Small Business Credit Cards: How Community Banks Can Harness the Opportunity

A joint Visa, ICBA Bancard, and A.T. Kearney study finds that community banks should take a proactive approach to succeed in the small business credit card space.



Small businesses are an integral part of the US economy, bringing jobs and innovation to local communities and contributing an estimated \$5.8 trillion in annual spending.¹ To manage this spending, small businesses are increasingly using credit cards as an efficient tool to make payments, control expenses, and manage cash flow. At the same time, credit cards have become an effective tool for large banks to establish beachhead relationships with small businesses, with the ultimate goal of forging a lasting banking relationship. Many community banks, on the other hand, take a passive approach to the product and do not always adequately address the credit card needs of their small business customers. As a result, small business customers end up looking for credit cards elsewhere, and community banks miss out not only on a source of revenue, but also on an opportunity to protect and deepen customer relationships.

The *Visa/A.T. Kearney Small Business Credit Card Study*, which consists of a survey of more than 3,400 US small businesses and interviews with community bank executives, finds that small business credit cards are a significant opportunity for community banks (see sidebar: About the Visa/A.T. Kearney Small Business Credit Card Study). Using the study's findings, we provide a community banks' road map to playing a more active role in this space, and outline opportunities for helping drive success.

Exploring the Untapped Opportunities

Credit cards are important for small businesses. They facilitate payments and can help businesses manage their finances more effectively and efficiently. Credit cards can also allow businesses to manage cash flow, access credit, separate business from personal expenditures, and track and control expenses (especially important to businesses that provide employees with credit cards).

The Visa/A.T. Kearney Small Business Credit Card Study reveals that almost 70 percent of small businesses use credit cards in a typical month. Credit card use is common across all business types, but becomes even more prevalent as businesses grow and become more established. Notably, almost 71 percent of small businesses that use credit cards designate a business credit card, as opposed to a personal/consumer credit card, as their primary card for business expenses.

About the Visa/A.T. Kearney Small Business Credit Card Study

The *Visa/A.T. Kearney Small Business Credit Card Study*, commissioned by Visa in partnership with ICBA Bancard, was conducted with a nationally representative sample of more than 3,400 US small businesses. The study defines small

businesses as those with 2016 annual revenue between \$50,000 and \$10 million. Conducted in October 2017 with an online panel, the study addresses small businesses' behaviors, decision-making, and preferences regarding the usage and

acquisition of business credit cards. As part of the study, we also conducted interviews with community bank executives to understand their views and approaches to small business credit cards, as well as their pain points.

¹ Sources: Visa Commercial Consumption Expenditure Index; Economist Intelligence Unit (EIU) modeling and analysis

According to the study, the small business credit card market is highly concentrated, with four providers accounting for almost 65 percent of the primary business credit cards used by small businesses. While 26 percent of small businesses with a primary business credit card report having a relationship with a community bank, only 2.9 percent report having a business credit card with a community bank. As we learned from our community bank executive interviews, the low market share among community banks is driven by their passive approach to the product—many community banks only offer small business credit cards to customers that request them rather than proactively marketing the product. In many cases, community banks lack competitive offerings, and market awareness of the product is often low due to limited promotion. As a result, community banks have a large untapped credit card product opportunity, particularly within their existing small business customer base (see sidebar: Sizing the Potential Opportunity on page 3).

Five key opportunity insights emerged from the study:

Opportunity Insight 1: Small businesses actively shop for business credit cards

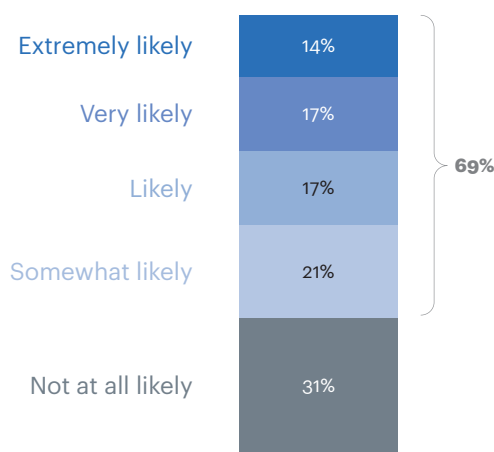
The search for attractive business credit card options tends to be ongoing. According to the study, in the past two years 38 percent of small businesses that have credit cards for business expenses looked for a new or additional business credit card. Of those, 72 percent decided to get a business credit card. Likewise, when those with credit cards were asked about the likelihood of getting a new or additional business credit card in the next two years, 69 percent reported being at least somewhat likely to do so, while 31 percent said they were extremely or very likely to get a card (see figure 1). The high level of ongoing shopping activity suggests that

Figure 1

Many small businesses are likely to get a business credit card in the near future

Likelihood of getting a business credit card in the next two years

Among small businesses that have credit cards for business expenses



N=2,432

Drivers of demand for a business credit card

Among small businesses that have credit cards for business expenses and are at least somewhat likely to get a business card in the next two years



N=1,666

Notes: Small businesses are those with 2016 annual revenues between \$50,000 and \$10 million. Questions: In the next two years, how likely is your company to get a new or additional business credit card? Which factors are likely to drive the need for the new or additional credit card? Select all that apply. Source: Visa/A.T. Kearney 2017 Small Business Credit Card Study

Sizing the Potential Opportunity

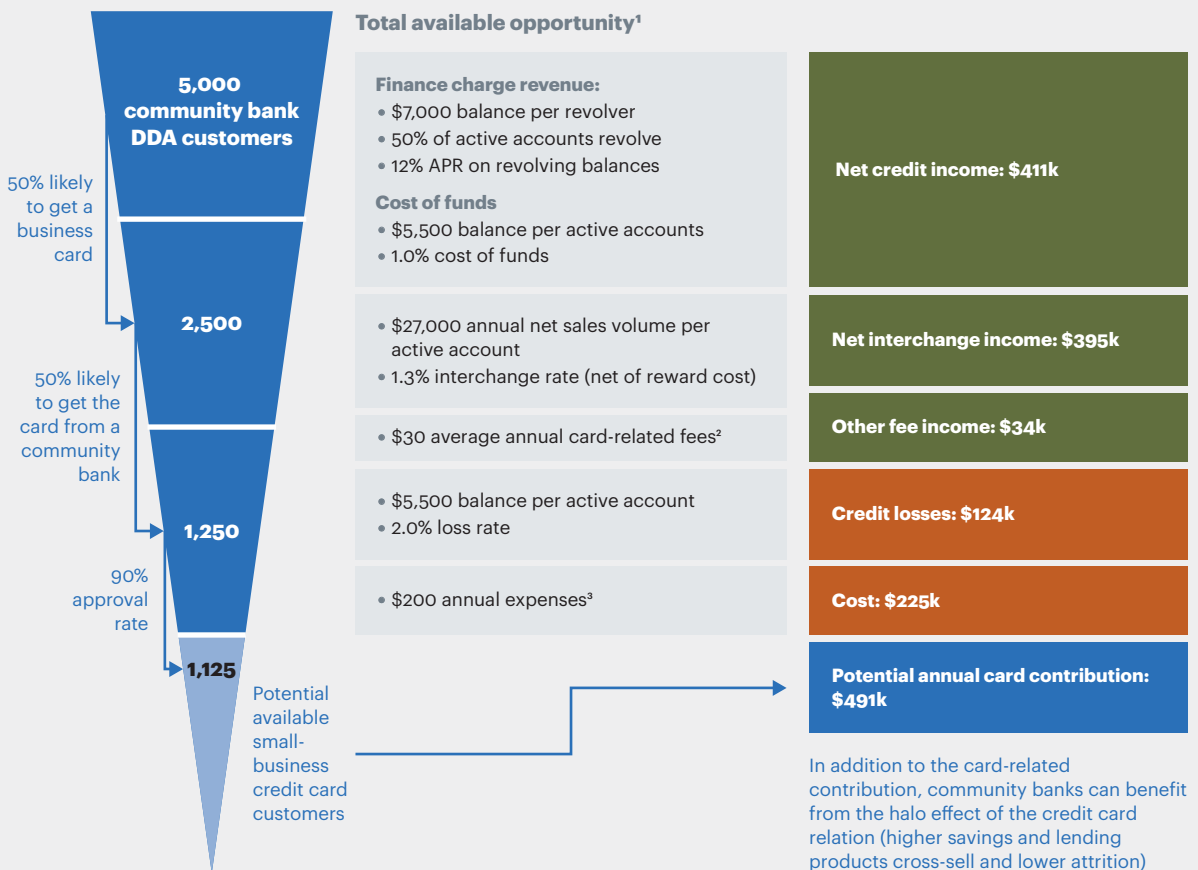
To assess the small business credit card opportunity for community banks, we leveraged the study results and market data to estimate the available opportunity for a community bank with 5,000 small business demand deposit account (DDA) customers (see figure). Our analysis suggests a

meaningful potential contribution can be expected from the credit card business, with potential additional benefit resulting from a deeper relationship with the customer. The available opportunity reflects the maximum annual business potential for the issuer. However, actual results

will depend on the issuer's ability to capture the opportunity and the timing required to reach run-rate levels.

Figure
Example of small business credit card available opportunity

Illustrative



¹ The available opportunity size reflects the maximum business potential for the issuer (assumes 100 percent active cards). Actual results will depend on the issuer's ability to capture the opportunity and the timing to reach the run-rate.

² Includes foreign exchange fees, late payment fees, over limit fees, and other penalty fees; assumes no annual card fees

³ Includes marketing, acquisition, operations, information technology, program administration, and other operating expenses

Sources: VisaNet, Visa Small Business Payments Behavior Study 2017, Visa Operating Certificates, Visa/A.T. Kearney 2017 Small Business Credit Card Study; A.T. Kearney analysis

Disclaimer: Case studies, comparisons, statistics, research, and recommendations are provided "AS IS" and intended for informational purposes only and should not be relied upon for operational, marketing, legal, technical, tax, financial, or other advice. Visa Inc. neither makes any warranty or representation as to the completeness or accuracy of the information within this document, nor assumes any liability or responsibility that may result from reliance on such information. The Information contained herein is not intended as investment or legal advice, and readers are encouraged to seek the advice of a competent professional where such advice is required.

the door is always open for community banks to step in and capture their fair share of new credit card relationships.

Opportunity Insight 2: Demand for small business credit cards can be created

Businesses shop for credit cards for a variety of reasons, but two clearly stood out as the main triggers (see figure 2):

- Desire for better rewards (the primary trigger for 19 percent of shoppers)
- Receiving a credit card offer that sparks interest in the product (the primary trigger for 18 percent of shoppers)

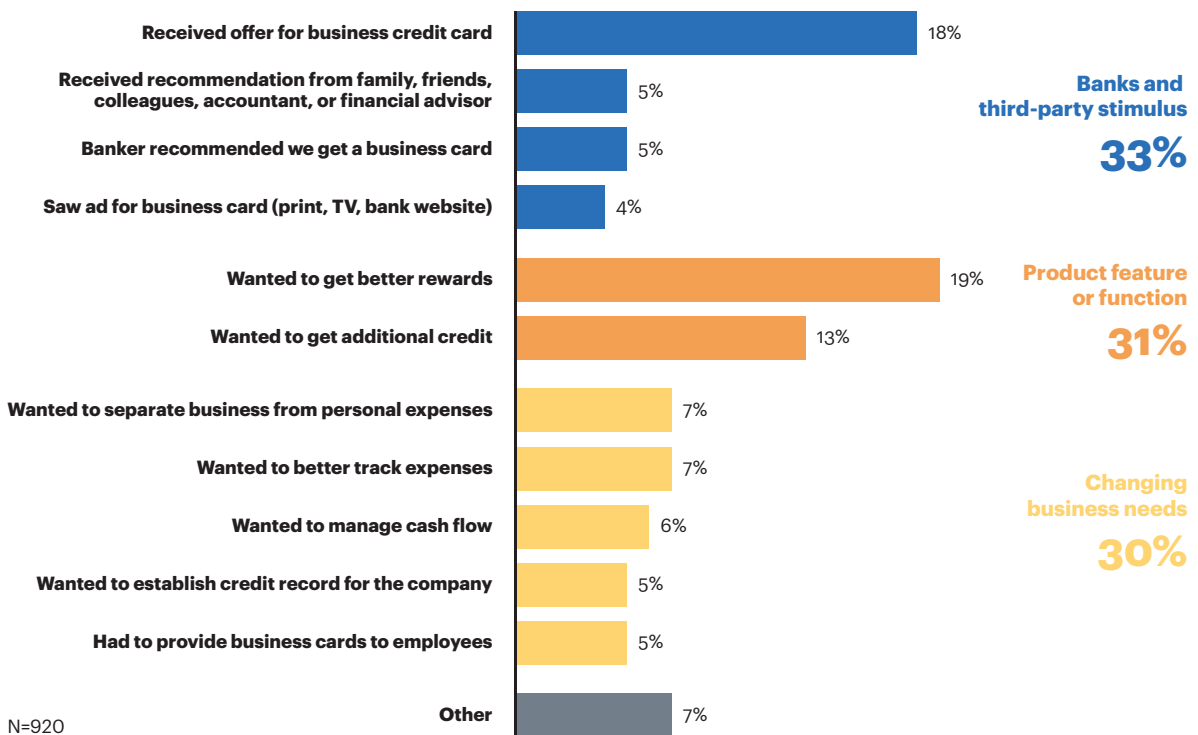
The fact that promotions and offers are effective in prompting small businesses to explore alternative credit card options suggests that demand can be created through direct marketing. Third-party stimulus such as recommendations (including those from bankers) and advertising can also drive shopping. Community banks could benefit from developing strategies for generating greater awareness of their offerings and triggering demand.

Figure 2

Demand for business credit cards can be created through offers and third-party stimulus

Trigger for shopping for a business credit card

Among small businesses that have credit cards for business expenses and shopped for a business credit card in the past two years



Notes: Numbers may not resolve because of rounding. Small businesses are those with 2016 annual revenues between \$50,000 and \$10 million. Questions: Which of the following options best describes the main trigger or event that caused your company to shop for a new or additional business credit card? Which of the following options best describe the main trigger or event that caused your company to get or open a new business credit card?

Source: Visa/A.T. Kearney 2017 Small Business Credit Card Study

Opportunity Insight 3: Many small businesses are receptive to community banks as a provider of business credit cards

Among small businesses likely to get a new or additional business card within the next two years, 26 percent say they would consider a community bank as their provider. For those that already have a banking relationship with a community bank that number goes up to 48 percent.

Importantly, if community banks were to improve their credit card offerings, most of the businesses that today would not consider a community bank as their credit card provider would include them in the consideration. Only two percent have a clear inclination against community banks, saying they would not get a business credit card from a community bank under any circumstances.

If community banks were to improve their credit card offerings, most businesses that today would not consider a community bank as their credit card provider would include them in the consideration.

The good news is that community banks have an opportunity to gain market share in the small business credit card space, particularly with their existing customers. But they should make these cards an integral part of their offerings and leverage them as a critical tool to foster deeper customer relationships.

Opportunity Insight 4: Community banks can succeed ... if they are in the consideration set

Community banks are in a compelling position when it comes to small business credit cards. While their market share is low, their success is high once they are in customers' consideration set: 67 percent of shoppers who considered getting a new or additional business credit card from a community bank ended up doing so. And once a credit card relationship is established, the chances that the card becomes primary are high: 80 percent of small businesses with a business credit card from a community bank consider that card to be their primary card for business purposes.

The challenge for community banks is that few businesses consider them a source for business credit cards. Only 2.3 percent of small businesses that shopped for a business credit card in the past two years, and selected a provider, considered getting the card from a community bank (see figure 3 on page 6).

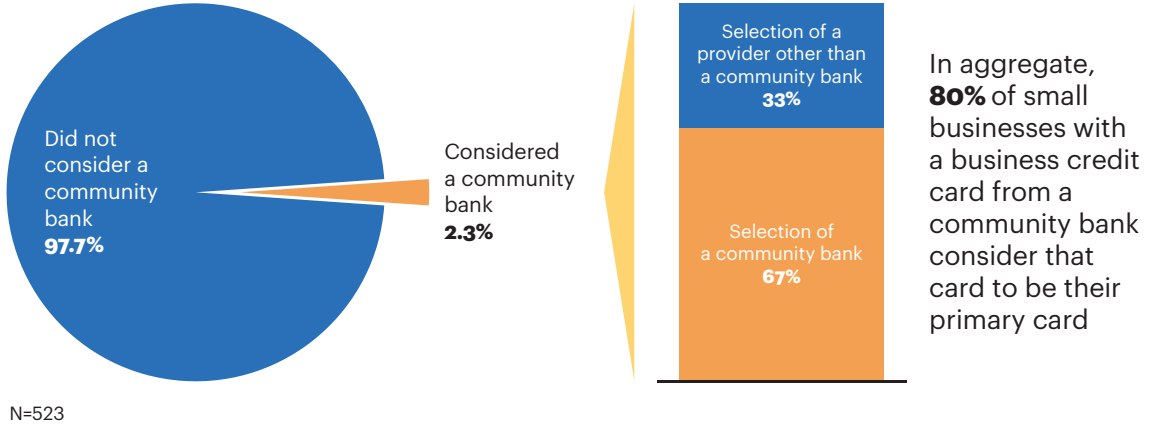
In order to be part of the consideration set and increase their chances of becoming providers of choice, community banks should be more proactive about promoting their business credit card products and creating awareness of their offerings. They should also leverage the unique characteristics of community banks that small business customers value.

Figure 3

Community banks perform very well when in the consideration set

Shoppers' consideration and selection of a community bank as business card provider

Among small businesses that have credit cards for business expenses, shopped for a business credit card, and selected a provider



Notes: Small businesses are those with 2016 annual revenues between \$50,000 and \$10 million. Questions: In the past two years, did your company shop for a new or additional business credit card? Which of the following financial institutions were or are in your consideration set as potential providers of a business credit card? Select all that apply. Of the financial institutions considered, which one did your company choose as the new or additional business credit card provider?

Source: Visa/A.T. Kearney 2017 Small Business Credit Card Study

Importantly, community banks should make it easy for small businesses to apply for the card, by offering digital account opening processes. Many small businesses prefer to apply for credit cards online; 55 percent of small businesses likely to get a card in the next two years said online or mobile would be their preferred application channel, and 47 percent of those that actually got a business card in the past two years applied digitally.

80 percent of small businesses with a business credit card from a community bank consider that card to be their primary card for business purposes.

Opportunity Insight 5: When it comes to community banks, small businesses value more than just the card offering

According to the study, when evaluating business credit card offerings, small businesses focus on three key elements: the line of credit, pricing (both annual percentage rate and fees), and rewards programs. Community banks could develop offerings that directly address these small businesses' priorities.

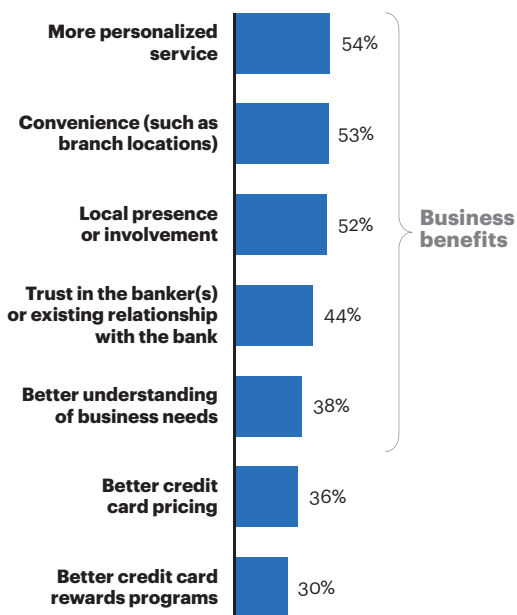
Interestingly, when considering a community bank as a credit card provider, small businesses tend to focus on a very different set of priorities. The top reasons for considering a community bank were attributes of the bank itself, including personalized service, convenience, and local presence and involvement (see figure 4).

Figure 4

Bank characteristics versus product features drive consideration of community banks as credit card providers

Top reasons for considering a community bank as a provider of a business credit card

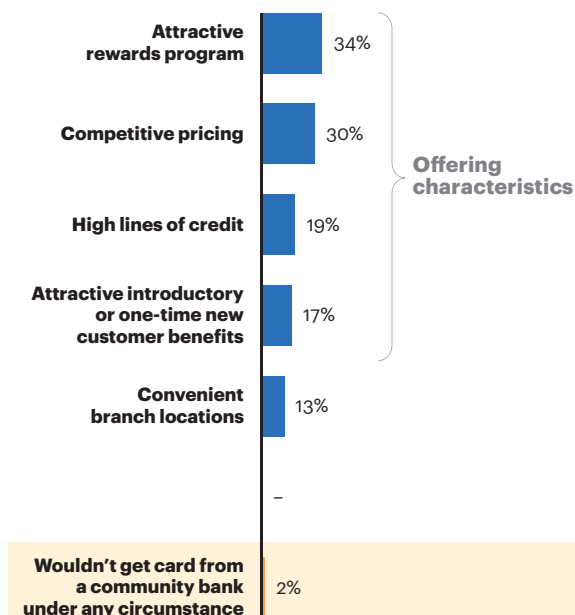
Among small businesses that have credit cards for business expenses, are at least somewhat likely to get a business card in the next two years, and would consider a community bank as a provider



N=437

Top potential drivers of community bank consideration as a provider of a business credit card

Among small businesses that have credit cards for business expenses and are at least somewhat likely to get a business card in the next two years but would not consider a community bank as a provider



N=1,229

Notes: Small businesses are those with 2016 annual revenues between \$50,000 and \$10 million. Questions: In the next two years, how likely is your company to get a new or additional business credit card? If your business were to get a new or additional business credit card, from which of the following financial institutions would your company consider getting the card from? Select all that apply. You said your company may get a credit card from a local or community bank. Why would you consider a local or community bank as a business credit card provider? Select all that apply. If your business were to get a new or additional business credit card, from which of the following financial institutions would your company consider getting the card from? Select all that apply. What would it take for your company to get a credit card from a local or community bank? Select all that apply.

Source: Visa/A.T. Kearney 2017 Small Business Credit Card Study

To be a contender in the small business credit card space, community banks should have a competitive offer, but not necessarily the best offer in the market. Community banks should make their core strengths central to their approach to attracting small business credit card customers and not worry about the fact that they may not be able to go head-to-head with the large players on every feature.

Key Opportunities for Community Banks

The opportunity insights derived from the study paint a clear picture in regard to how community banks can take advantage of the small business credit card opportunity.

- 1. Develop a competitive “enough” product.** Assess competitiveness of current or potential offering(s) in light of small businesses’ focus on credit line size, pricing, and rewards. At the same time, leverage core strengths such as personalized service and local involvement to differentiate offerings from those of larger players. With current customers, use the existing relationship and customer knowledge to make offerings more competitive (for instance, relationship pricing, rewards aggregation across accounts).
- 2. Establish appropriate underwriting standards.** Given the high importance of the size of the line of credit for small businesses, develop underwriting standards that take into consideration the broad relationship and business information to provide lines of credit as high as possible, while staying within the bank’s risk standards.

Community banks can succeed ... if they are in the consideration set.

- 3. Create awareness and drive demand.** Take a proactive approach to marketing the credit card product to ensure being part of the consideration set for existing (and even potential) customers. Available channels to drive awareness may include:
 - A bank website that promotes the business credit card and includes easy navigation to basic information about the offering, pricing, rewards, and other benefits
 - Signage and pamphlets at bank branches encouraging customers to inquire about the product
 - Front-line personnel trained to understand client needs and how the credit card offering can help address them
 - Direct marketing (for example, mail/email, bank statements, online/mobile banking) to make businesses aware of the offering and make it easy for them to apply
 - Search engine optimization (SEO) to ensure awareness-building as small customers engage in the shopping process.
- 4. Offer basic digital capabilities.** Deploy digital account-opening capabilities, which can be essential to addressing small business preferences. Other capabilities valued by small business customers may include online statements (especially when seamlessly integrated with online banking), digital alerts (via text and email), and digital tools for easy rewards redemption.
- 5. Develop product management strategies.** Establish processes for managing the credit card program, to improve profitability and keep pace with the competition. This may include strategies to promote card activation and usage, as well as programs designed to increase or decrease lines of credit.

Moving Forward

Community banks can be poised for success in the small business credit card space, provided they take a more proactive approach to marketing and selling the product and a more relationship-driven approach to pricing and underwriting. In evaluating whether to invest in revamping their small business credit card offerings or launching a *de novo* program, community banks should not only consider the direct economics of the credit card, but also the broader benefits of deepening relationships with their small business customers, including a higher penetration of savings and lending products and the tendency of credit card customers to remain more loyal. The credit card is not just a banking product, but can be a relationship-building tool for community banks.

Community banks that can leverage their existing customer relationships, high level of customer service, and local presence/involvement to promote and sell small business credit cards could reap substantial benefits by protecting and deepening their small business customer relationships. With substantial credit card shopping activity within their customer base occurring every year, it is time for community banks to lean in and capture the opportunity.

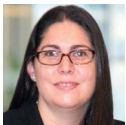
Authors



Teresa Epperson, partner, Boston
teresa.epperson@atkearney.com



Arturo Perez, principal, Boston
arturo.perez@atkearney.com



Monica Gabel, principal, Boston
monica.gabel@atkearney.com



About A.T. Kearney

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit www.atkearney.com.

About ICBA Bancard

ICBA Bancard® is the wholly owned payment services subsidiary of the Independent Community Bankers of America. ICBA Bancard's community bank issuers generated over \$26 billion in sales volume in 2017 and are ranked collectively as the 25th largest credit card portfolio in the United States. ICBA Bancard enables thousands of community banks to provide competitive credit card, debit card, ATM, and merchant processing solutions. The company also provides exclusive services to issuers including its Fraud Loss Protection Plan, marketing support, and product education. For more information, visit www.icba.org/bancard.

About Visa

Visa Inc. (NYSE: V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network – enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device, and a driving force behind the dream of a cashless future for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce. For more information, visit usa.visa.com/about-visa.html, visacorporate.tumblr.com and [@VisaNews](https://twitter.com/VisaNews).

For more information, permission to reprint or translate this work, and all other correspondence, please email: insight@atkearney.com.

© 2018, A.T. Kearney, Inc. All rights reserved.