



The Rise of Microbusinesses

How Banks and Credit Unions Can Better Serve Over **20%** Of The U.S. Workforce

Q1 2025 Audience Insights Report



Executive summary

The microbusiness segment represents a **\$70 billion revenue opportunity for financial institutions, employing 21% of the US workforce**. As traditional banking solutions continue to underserve this market, forward-thinking institutions have an unprecedented opportunity to capture market share through vertical-specific offerings.

Key Findings

- **9 in 10** microbusinesses consider digital tools critical for success
- **8 in 10** prefer bundled banking, payments, and operations solutions
- **4 in 10** are likely to switch their primary banking relationship within 12 months
- **6 in 10** feel overwhelmed by multiple digital solution requirements

Strategic Imperatives

- Deliver an **integrated digital solution** that combines banking, payments, and operational tools
- Ensure **easy access to expertise** during complex decision-making moments
- Build **trust through robust security** measures and fraud prevention capabilities
- Develop **vertical-specific solutions** tailored to industry needs

A letter from

MIKE VINEY | Head of Research and Innovation, Nymbus Labs

I am pleased to present our Q1 2025 Audience Insights Report.

In this quarter's report, we spotlight the microbusiness banking opportunity, a crucial segment that represents one of the next frontiers of growth for financial institutions.

As banks seek new growth verticals in an increasingly competitive landscape, vertical banking strategies have emerged as a powerful lever for differentiation and market expansion. Our research reveals that traditional one-size-fits-all banking approaches are no longer sufficient to capture and retain today's sophisticated business customers, particularly in the dynamic microbusiness segment.

The fact that 9 in 10 of this audience consider digital tools critical for their success, while 8 in 10 specifically desire bundled banking and operational solutions, presents a compelling reason why this represents an ideal vertical for banks to pursue. This alignment of customer needs with technological capability creates an unprecedented opportunity for banks to deliver specialized, vertical-specific solutions.

The timing for this strategic investment couldn't be more opportune. Despite economic headwinds, this segment demonstrates remarkable resilience and growth potential.

Census data indicates that the segment employs 21% of the US workforce and represents a \$70 billion revenue opportunity for financial institutions, with consistent growth in core banking products, including deposits, lending, and merchant services.

What makes this vertical particularly attractive is the clear product-market fit opportunity. Traditional banking solutions have historically underserved this segment, creating a gap that forward-thinking institutions can fill through targeted, vertical-specific offerings. The demand for integrated financial and operational tools, combined with the segment's digital-first mindset, presents a clear path for banks to create sustainable competitive advantages.

This research provides a roadmap for financial institutions to capture this opportunity through vertical banking strategies. By understanding microbusiness owners' unique needs, behaviors, and preferences, banks can develop targeted solutions that drive growth while building lasting customer relationships.

We trust this resource will provide valuable insights as you consider your institution's growth strategy and the role vertical banking can play in capturing the growing small business opportunity.

Mike Viney

Research & Innovation
Nymbus Labs

INTRODUCTION

The microbusiness landscape

The rise of microbusinesses represents a fundamental transformation in the American economic landscape, creating an unprecedented opportunity for financial institutions to significantly grow deposits. The United States is home to over 33 million SMBs, representing 99% of enterprises and employing 47% of private sector workers. Small businesses as a whole represent approximately **\$150 billion in annual revenue potential for the banking industry.**

Three distinct customer profiles shape the smaller end of the small business market, each with unique banking needs and growth trajectories.

The Side Hustle

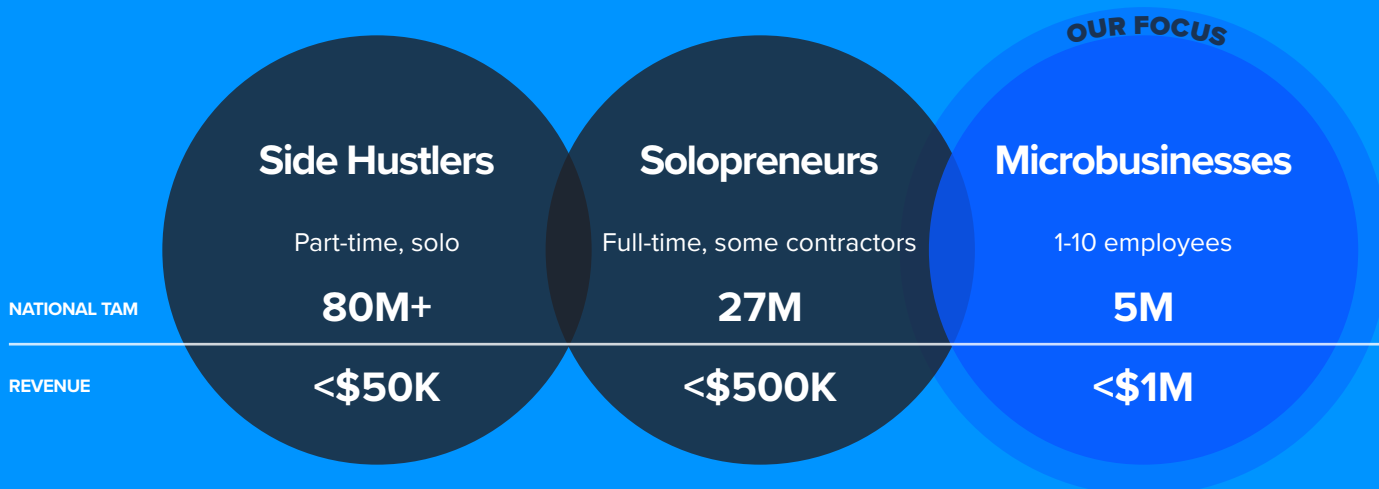
At one end, side hustlers represent emerging entrepreneurs who maintain traditional employment while building their businesses.

The Solopreneur

In the middle, solopreneurs operate independently, often as full-time business owners primarily working in professional services and digital commerce.

The Microbusiness

Our focus today is on the third segment—microbusinesses—which typically employ 1 to 10 people and capture up to \$1 million in annual revenue.



SOURCE: _____

¹2021 US County Business Patterns

²2022 US Census Bureau Nonemployer Statistics

Employing **21%** of the U.S. workforce, these 5 million microbusinesses represent an attractive segment for financial institutions by combining the agility of smaller enterprises with a more measured approach to growth, creating an ideal profile for specialized banking solutions.

The revenue potential is substantial and segmented. Small business banking as a whole has emerged as a consistent growth opportunity for banks, with 5% annual increases in revenue from deposits, credit cards, and merchant services over the past five years. Microbusinesses (those with under \$1M revenue) represent \$70 billion of revenue potential, while small businesses with \$1-10M revenue account for \$55 billion.

Microbusinesses by Region

The Northeast accounts for 949,894 microbusinesses, anchored by New York (375,371) and New Jersey (152,938). Massachusetts leads the New England states with 111,348 microbusinesses, demonstrating the region's strong entrepreneurial

ecosystem, particularly in professional and technical services.

The South emerges as the leading region with 1,847,318 microbusinesses. Texas (373,959) and Florida (426,281) serve as the primary drivers, followed by Georgia (157,110) and North Carolina (147,717). This concentration reflects the region's favorable business climate, lower operating costs, and population growth.

The West accounts for 1,246,935 microbusinesses, with California dominating at 664,967 establishments. Colorado (118,589) and Washington (128,188) form secondary hubs, particularly in technology and professional services sectors.

The Midwest maintains a substantial presence with 948,656 microbusinesses. Illinois leads with 202,136 establishments, followed by Ohio (135,080) and Michigan (131,994), reflecting the region's diverse economic base.

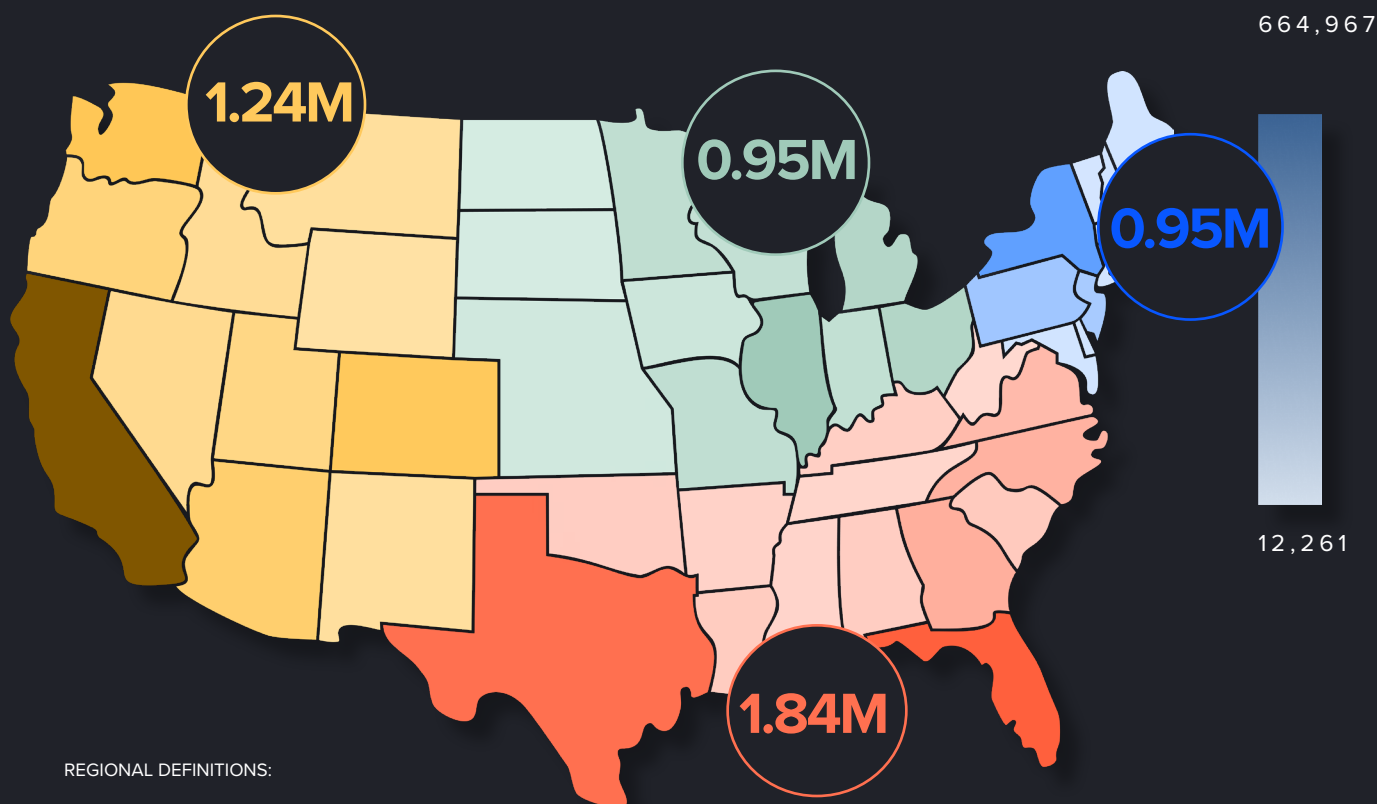
This distribution reflects a clear economic hierarchy where coastal states and major economic centers drive microbusiness development. The South's leadership position, powered by Florida, Texas, and Georgia, suggests a favorable environment for small enterprise formation. At the same time, California's overwhelming numbers in the West indicate its continued role as a primary hub for entrepreneurial activity.

SOURCE:

¹ 2021 US County Business Patterns

² "Five ways for banks to better serve small-business clients", McKinsey, 2023

Number of Microbusinesses (1-9 employees) by Region



REGIONAL DEFINITIONS:

Northeast: CT, ME, MA, NH, NJ, NY, PA, RI, VT

South: AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, WV

Midwest: IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI

West: AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY

The segment demonstrates a strong appetite for digital transformation. Research shows that 94% consider digital tools important for business success, while 80% prefer bundled banking, payments, and operations solutions. Additionally, 79% want comprehensive digital solutions from their primary bank, though 57% feel overwhelmed by multiple digital solution requirements.

This transformation in business ownership patterns, coupled with

increasing digital adoption, presents a strategic opportunity for banks to reshape their small business offerings. Financial institutions have a unique window to capture this growing segment through integrated banking and operational solutions, tailored digital tools for specific business needs, comprehensive support infrastructure, and streamlined user experience focused on efficiency.

SOURCE:

¹ Census Bureau Statistics of U.S. Businesses 2021 (Employer firms with 1 - 9 employees)

² Small Business Perspective, US Bank 2024

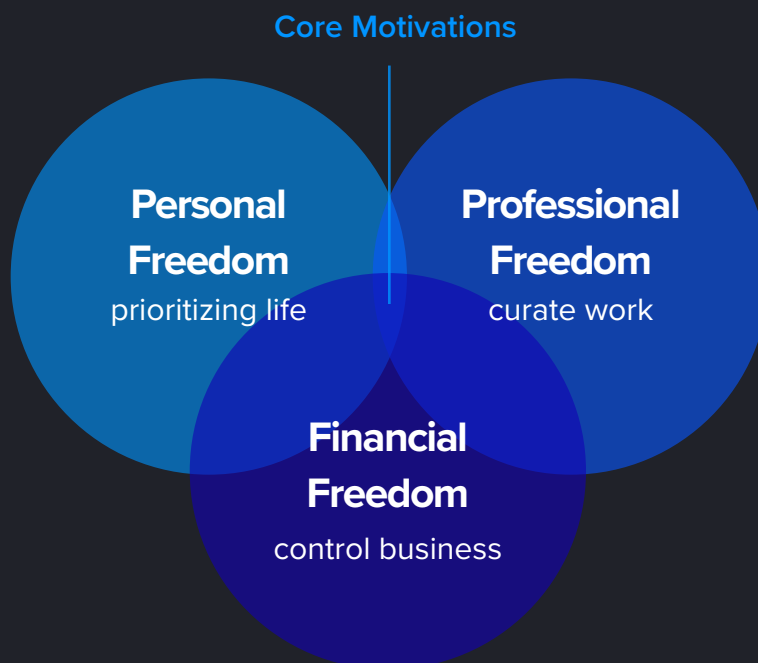
Driven by a desire for personal, professional, and financial freedom

The Entrepreneurial Mindset of Microbusiness Owners

Unlike traditional entrepreneurs focused primarily on growth and scale, microbusiness owners at this size (<\$1M revenue) exhibit a distinct mindset shaped by their desire for autonomy, balance, and sustainable success. Their approach to business ownership represents a fundamental shift in how modern entrepreneurs view work, income generation, and personal fulfillment.

Core Motivations

At the heart of this business owner's journey lies a deep-seated desire for three interconnected freedoms. **Personal freedom** enables them to structure their time around life priorities, whether attending children's events or taking spontaneous trips, without corporate constraints. **Professional freedom** allows them to curate their work, selecting projects that align with their values and expertise. **Financial freedom** provides the ability to directly benefit from their efforts while maintaining control over business decisions.



Strategic Balance

What distinguishes these business owners is their intentional pursuit of balance over rapid expansion. Rather than pursuing aggressive growth, they seek to be “**captains of their own ship**” while deliberately avoiding the complexities of managing a large organization. This manifesto of controlled scale enables them to **maintain the very freedoms that drove them to entrepreneurship**.

Operational Philosophy

Microbusiness owners embrace a lean operational model that prioritizes efficiency and flexibility. They leverage modern tools like AI and digital platforms, strategically engage contractors, and maintain adaptable business models. This approach allows them to achieve predictable income streams while preserving work-life balance - a stark contrast to the traditional entrepreneurial focus on maximizing growth and market share.

This distinct mindset, cultivated through either entrepreneurial upbringing or catalyzed by career pivots, fundamentally reshapes how business owners of this size approach success, defining it through the lens of personal autonomy rather than conventional business metrics.



Cash flow management keeps microbusiness owners up at night

The Complex Balancing Act of Microbusiness Ownership

Micro-enterprises face distinct challenges stemming from their unique operating model and limited resources. At the core of these challenges lies the complex task of financial management—particularly the irregular nature of income streams, which creates an ongoing balancing act between service delivery and revenue generation.

Cash Flow Complexity

The feast-or-famine nature of revenue presents a fundamental challenge for owners of these ventures. Compared to traditional employment with predictable income, these entrepreneurs must navigate irregular payment cycles and delayed client payments, often due to their clients' own financial constraints. This cascading effect impacts their ability to manage operating expenses and invest in growth opportunities.

Operational Burden

While business owners within this vertical are drawn to entrepreneurship for its promise of autonomy, they find themselves thrust into managing a multitude of tasks beyond their core expertise. From tax compliance and invoicing to accounting and regulatory requirements, these administrative responsibilities consume valuable time that could otherwise be spent on revenue-generating activities.

Research shows that

6 in 10 feel overwhelmed by the number of solutions needed to run their business effectively.

Resource Constraints

Access to capital remains a persistent challenge, with

4 in 10

business owners citing funding constraints as a significant stressor.

Traditional lending criteria often fail to accommodate their unique business models, forcing them to rely on personal resources or alternative financing options. This limitation particularly impacts their ability to invest in digital tools and automation, despite almost all recognizing their importance for business success.

Strategic Implications

The combination of these challenges creates a paradox where the very freedom that attracted these entrepreneurs to business ownership becomes constrained by operational demands. Success requires finding ways to streamline administrative tasks while maintaining focus on core business activities - a balance that increasingly depends on leveraging digital solutions and automated tools to reduce the operational burden.



Use digital tools to help solve their unique problems

Microbusiness owners clearly prefer for comprehensive digital solutions that directly address their operational challenges while maintaining simplicity and efficiency. Research shows that 9 in 10 consider digital tools (such as payment processing, accounting, invoicing, and payroll solutions) critical for their success, while

4 in 10 specifically prioritize tools that simplify work.

Digital Integration Requirements

The modern operator of businesses at this size prioritizes seamless integration of financial and operational tools.

8 in 10 prefer their primary bank to provide digital solution for banking, payments, and administrative tasks,

reflecting a strong desire to consolidate their technology stack. This preference stems from the those who report feeling overwhelmed by the number of digital solutions needed to run their business effectively.

For example, microbusiness owners within the design industry reported challenges with “tracking income and expenses, managing payments from different time periods, organizing for taxes” across multiple systems. Similarly, an operator of a women’s health coaching business expresses the need for “streamlining financial management, integrating tools for bookkeeping, payments, and marketing” into a more cohesive solution.

This overwhelmingly leads microbusiness owners to seek consolidated solutions that can reduce the complexity of managing multiple disparate tools while maintaining the functionality they need to operate effectively.

SOURCE: _____

¹ Small Business Perspective, US Bank 2024

Support and Service Expectations

While digital tools form the foundation of their operations, microbusiness owners seek a hybrid approach that combines technological efficiency with human expertise. They value financial partners who offer:

- ✓ **Robust digital platforms** for day-to-day operations
- ✓ **Access to knowledgeable support** for complex needs
- ✓ **Educational resources** and **business advisory services**

Security and Growth Focus

Security emerges as a paramount concern, with almost half of owners citing fraud prevention as a key benefit they seek from digital tools.

Additionally, microbusiness owners prioritize solutions that enable growth, with **4 in 10** valuing tools that simplify their work and improve operational efficiency.

Tailored Tools

Despite strong interest in digital transformation, this audience faces significant barriers to adoption. About 3 in 10 indicate they need assistance implementing new digital solutions, while a third require support in selecting and deploying the right tools for their specific needs. This gap presents a clear opportunity for financial institutions to provide both the tools and the implementation support these businesses require.

The convergence of these preferences signals a shift in how this segment of businesses approach their banking relationships. It emphasizes the need for financial institutions to deliver integrated, secure, and user-friendly digital solutions while maintaining the human element of service delivery.

Non-digital needs beyond basics of a banking relationship

This audience demonstrates a distinct evolution in their banking relationship preferences, seeking partnerships that balance digital efficiency with strategic support. While most prefer bundled banking, payments, and operations solutions, they also demand a more nuanced relationship that extends beyond basic transactions. This nuanced relationship manifests through several **key dimensions** revealed below. They seek financial partners who understand their unique operational rhythms, with infrequent branch visits but high expectations for digital service availability. They value partners who provide robust data security and account protection measures as top priorities while offering knowledgeable phone support for critical problem resolution.

Security and Protection

Data security and robust account protection emerge as paramount concerns, with

4 in 10

of microbusiness owners citing fraud prevention as a key benefit they seek from their banking relationships.

This security-first mindset reflects the growing sophistication of digital threats and the increasing value of business data.

Digital-First, Human-Enabled

While microbusiness owners show comfort with digital-only banking services, they value optional access to human expertise for complex needs.

Research indicates that **8 in 10** prefer their primary bank to provide comprehensive digital solutions, yet they also seek knowledgeable support for strategic decisions and problem resolution.

SOURCE: _____

¹Small Business Perspective, US Bank 2024

This approach is particularly important because microbusiness owners demonstrate sophisticated decision-making when considering banking relationships, with

4 in 10 indicating they are likely to switch their primary banking relationship within the next 12 months.

The ability to balance digital efficiency with strategic human support becomes a key differentiator in maintaining these valuable relationships.

Operational Integration

The modern microbusiness banking relationship centers on operational efficiency. **Three key priorities emerge here:**

- ✓ **Integration of banking** with business operations
- ✓ **Streamlined payment processing** and **merchant services**
- ✓ **Automated accounts payable** and **receivable solutions**

Value-Added Services

Beyond traditional banking services, these business owners seek partners who can provide:

- ✓ **Educational resources** and **business advisory services**
- ✓ **Tools for business growth** and **efficiency**
- ✓ **Integrated solutions** that reduce administrative burden

This evolution in banking expectations reflects the growing sophistication of microbusinesses and their need for financial partners who can support both their operational and strategic needs while maintaining the flexibility and independence that defines their business model.



KEY TAKEAWAYS

Financial Institutions Can Differentiate Themselves to Microbusiness Owners by:



Delivering integrated digital solutions that combine banking, payments, and operational tools while maintaining human touchpoints for critical support.



Building trust through robust security measures and fraud prevention capabilities.



Ensuring easy access to expertise during more complex decision-making moments, particularly around credit access.



Switch for tailored solutions over traditional cash incentives

Microbusiness owners demonstrate sophisticated decision-making when considering banking relationships, prioritizing long-term value over short-term incentives. Research shows that 4 in 10 within this vertical indicate they will likely to switch their primary banking relationship within the next 12 months.

Value-Driven Decision Making

The primary motivators for switching financial institutions stem from fundamental business needs rather than promotional offers.

While

3 in 10

cite access to credit as a key switching factor, the decision framework extends beyond traditional banking products.

Microbusiness owners seek **partners who can deliver integrated solutions** that address their operational challenges and growth objectives.

Cost Structure Expectations

Low account minimums and competitive fee structures are considered baseline requirements rather than differentiators.

For payment processing specifically,

8 in 10

view payment processing services as essential, with cost sensitivity driving switching behavior, particularly among service-based businesses with larger transaction volumes.

This approach is particularly important because microbusiness owners demonstrate sophisticated decision-making when considering banking relationships. **The ability to balance digital efficiency with strategic human support becomes a key differentiator in maintaining these valuable relationships.**

Integration Requirements

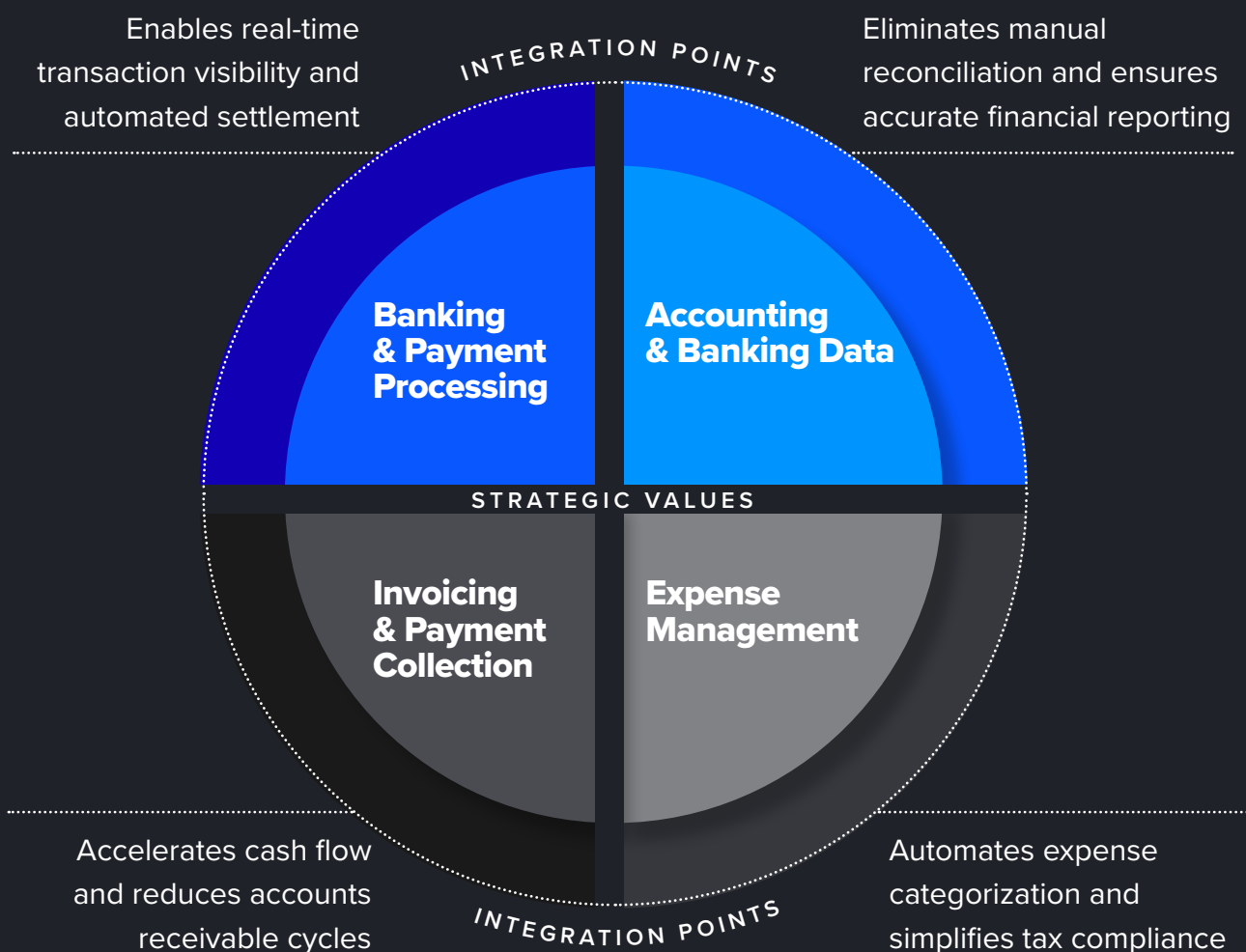
Small business owners demand comprehensive integration capabilities that extend far beyond basic banking functions.

8 in 10

microbusinesses actively seek providers offering unified solutions for banking, payments, and business operations.

This market imperative stems from the significant operational burden they currently face. Business owners lose 2-4 hours per week navigating disconnected financial systems, with manual reconciliation tasks consuming a disproportionate share of their productive time. This inefficiency represents not just a time cost but a strategic vulnerability for businesses operating in an increasingly digital economy.

The Modern Financial Technology Stack Must Seamlessly Connect:



By implementing these integrations, financial institutions can deliver a compelling value proposition that directly addresses the operational pain points of their small business clients. This integrated approach not only reduces administrative overhead but also provides businesses with a unified view of their financial operations, enabling more informed decision-making and strategic planning.

The demand for integrated solutions represents a fundamental shift in how businesses expect to interact with their financial service providers, moving from siloed point solutions to comprehensive, interconnected platforms that support across business operations.

Relationship Quality

The quality of the banking relationship significantly influences switching decisions. The owners of these types of businesses seek partners who demonstrate:

- ✓ A deep understanding understanding of their business model
- ✓ Sector-specific expertise
- ✓ Responsive support for complex needs
- ✓ Proactive solution recommendations

This emphasis on relationship quality and tailored solutions represents a shift from traditional banking relationships focused primarily on transactional services, highlighting the opportunity for financial institutions to differentiate through specialized microbusiness offerings.

Curious how your financial institution can use vertical banking as a growth strategy?

Connect with a Nymbus Labs Expert today: nymbus.com/lp/labs-contact-us/

Capturing the microbusiness banking opportunity

The microbusiness segment represents a compelling vertical banking opportunity for financial institutions seeking sustainable growth. By moving beyond traditional small business approaches to develop segment-specific solutions, banks can unlock significant value in this underserved market.



Strategic Imperatives for Financial Institutions

Financial institutions must reimagine their approach to microbusiness banking through three key dimensions:

01

Embrace Vertical-Specific Solutions

The traditional one-size-fits-all banking model fails to address the unique needs of microbusinesses. **Financial Institutions should develop dedicated vertical solutions that combine core banking services with integrated operational tools.** This vertical approach enables deeper customer relationships while improving operational efficiency and profitability.

Success requires seamless digital experiences complemented by strategic human support. Banks should invest in:

- **Integrated platforms** combining banking, payments, and business operations
- **Automated decisioning** for routine transactions
- **Specialized support** for infrequent but more complex needs

02

Deliver Digital-First, Human-Enabled Experiences

03

Build Ecosystem Partnerships

Financial institutions should expand beyond traditional banking services through strategic partnerships that:

- Integrate with popular **business management tools**
- Provide complementary **non-banking services**
- Enable **streamlined financial services** within existing business workflows



Accelerate into 2025

A strategy-first approach to vertical growth

If you're wondering what a vertical-focused banking strategy that serves microbusinesses looks like for your financial institution, we're here to guide you. Through targeted analysis and strategic workshops, we'll help identify the right verticals tailored to your market and mission.

Book a Nymbus Launch Strategy Workshop

Our expertise in designing innovative financial solutions - powered by data and insights - can fast-track your journey to developing a vertical growth strategy and building a strong business case.

Nymbus helps community FIs uncover, validate, and capitalize on opportunities across small business and retail verticals—equipping you with the products, solutions, brands, and marketing strategies to succeed.

What Does the Process Look Like?

The Nymbus Launch Strategy Workshop is a collaborative 3-4 week process designed to create a clear, actionable vertical strategy. We'll partner with your team to:

- **Clarify your FI's goals** and identify high-potential verticals for targeted growth
- **Develop solutions** tailored to vertical needs
- **Establish vertical-specific marketing activation strategies** backed by managed services to drive results
- **Optimize vertical services** with data-driven insights

With Nymbus, your FI can confidently explore vertical growth and achieve strategic impact in 2025.

Connect with Nymbus Labs today by emailing labs@nymbus.com



nymbus.com/labs



About the research

This market pulse study examined the microbusiness banking landscape, focusing on businesses with under 10 employees across professional services, technology, and creative industries in the U.S.

Methodology

In-depth interviews were conducted with microbusiness owners who established their businesses between 2009-2023. They represent diverse sectors, including:

- Professional Services (accounting, consulting, legal)
- Creative Services (design, marketing, content creation)
- Technical Services (IT, software development, digital services)
- Health and Wellness (coaching, therapy, personal training)

Areas of Focus

- Business priorities and operational challenges
- Financial services decision-making factors
- Digital adoption patterns
- Provider-switching triggers