

SMB BORROWING DYNAMICS: TRENDS, TOOLS AND DECISION DRIVERS

January 2024
Report



PYMNTS
INTELLIGENCE



SMB BORROWING DYNAMICS: TRENDS, TOOLS AND DECISION DRIVERS

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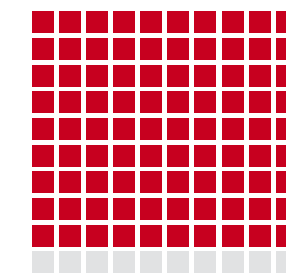
WHAT'S AT STAKE

Small to mid-sized businesses (SMBs) face a complex financial landscape in which strategic choices about the use of borrowing tools are tethered to business objectives. These decisions, informed by factors such as revenue levels, generational leadership, and unpredictable cash flows and expenses, highlight the importance of accessible and versatile borrowing tools in the eyes of SMB executives.

PYMNTS Intelligence's latest study reveals that SMBs widely prioritize flexibility and accessibility in their borrowing tool preferences, but with key differences depending on the business's size and other characteristics. For example, while 73% of all SMBs surveyed use revolving credit, low-revenue SMBs employ fewer borrowing tools, on average, than their high-revenue counterparts.¹ Low-revenue SMBs tend to prioritize immediate working capital needs and financial sta-

¹ This report defines low-revenue SMBs as those generating less than \$1 million in annual revenue, middle-revenue SMBs as those generating between \$1 million and \$10 million, and high-revenue SMBs as those generating more than \$10 million.

90%



of SMBs utilized at least one type of **borrowing tool** in the last year.

bility relatively more than high-revenue SMBs, which focus more on business expansion and growth objectives. Across the board, however, credit cards — particularly those with reward features — stand out as the most preferred borrowing tool.

These are just some of the findings detailed in SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, a PYMNTS and U.S. Bank collaboration. This edition examines the complex patterns of SMB borrowing preferences and draws on insights from a survey of 2,668 SMB executives conducted from Oct. 9, 2023, to Nov. 17, 2023.

This is what we learned.

01

FLEXIBLE BORROWING

When it comes to borrowing tools, SMBs favor multiple options to meet business needs and enhance financial flexibility, with rewards credit cards as their overwhelming favorite.



51%

Share of SMBs that use rewards credit cards

02

GENERATIONAL INFLUENCE

Executives at SMBs owned by millennials and members of Generation X utilize more borrowing tools, on average, than their peers from other generations.



2.8

Average number of borrowing tools used in the past year at millennial- or Gen X-owned SMBs

03

SIZE MATTERS

SMBs' revenue size significantly affects borrowing behavior, with lower-revenue firms showing more caution toward debt.



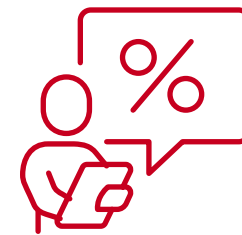
20%

Share of low-revenue SMBs that did not use any borrowing tools in the past year

04

PRACTICAL DECISIONS

SMBs prioritize borrowing tools based on practical needs, including accessibility of funds and financial conditions, with less emphasis on relationships and trust.



33%

Share of SMBs that prefer borrowing tools with favorable payment terms

PYMNTS IN DEPTH

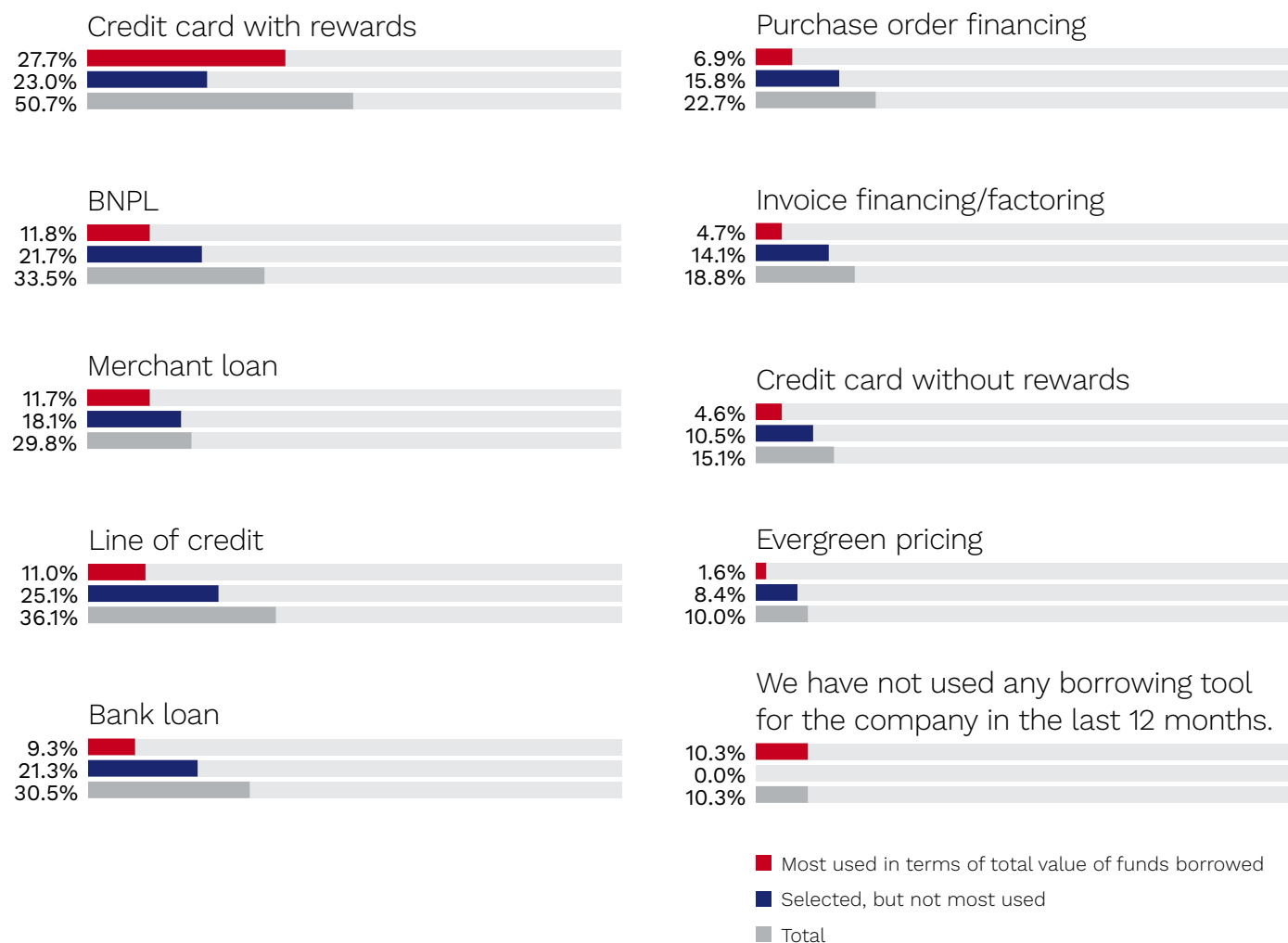
Exploring SMBs' borrowing strategies reveals that they widely prioritize flexibility and accessibility.

About three-fourths of SMBs use revolving credit, and rewards credit cards rank as their favorite borrowing tool.

PYMNTS Intelligence's latest research finds that 90% of SMBs utilized at least one type of borrowing tool in the last year, highlighting the critical role they play in SMBs' financial strategies. Revolving credit products — such as credit cards and lines of credit — are the most widely used, with 73% of SMBs doing so and 45% identifying one of these as their go-to method. Rewards credit cards top the list, used by 51% of SMBs — far higher than the 15% that use other, non-rewards credit cards. Lines of credit, at 36%, and buy now, pay later (BNPL), at 33%, are also widely used flexible borrowing tools. Fixed-term products are notably less popular, with bank loans, at 31%, and merchant loans, at 30%, the most common.

FIGURE 1:
SMBs' use of borrowing tools

Share of SMB executives citing select borrowing tools they have used in the last 12 months, by level of use



Source: PYMNTS Intelligence

SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024
 N = 2,668: Whole sample, fielded Oct. 9, 2023 – Nov. 17, 2023

Borrowing tool preferences can vary significantly with business size. While rewards credit cards top the list for all SMBs, low-revenue businesses favor them as primary borrowing tools, at 33%, compared to 25% for middle-revenue and 23% for high-revenue firms. In contrast, high-revenue SMBs disproportionately opt for BNPL, with 17% naming it their top option, compared to 13% of middle-revenue and just 7.5% of low-revenue SMBs. The strong preference for rewards credit cards among low-revenue SMBs suggests an emphasis on immediate benefits that provide tangible value, such as cash back and card points that can pay for travel. The higher usage of BNPL among high-revenue SMBs points to a strategic approach focused on optimizing cash flow management.

Revenue levels and generational outlooks are key drivers of how SMBs use borrowing tools.

SMBs are highly aware of the value of having access to diverse borrowing options, with 67% of surveyed executives saying it is important for their primary financial institutions (FIs) to provide multiple borrowing tools. This demand is more pronounced among larger SMBs. Among the SMBs that used a borrowing tool in the last 12 months, high-revenue SMBs employed 3.5 different tools, on average — notably more than the 2.3 their low-revenue peers used.

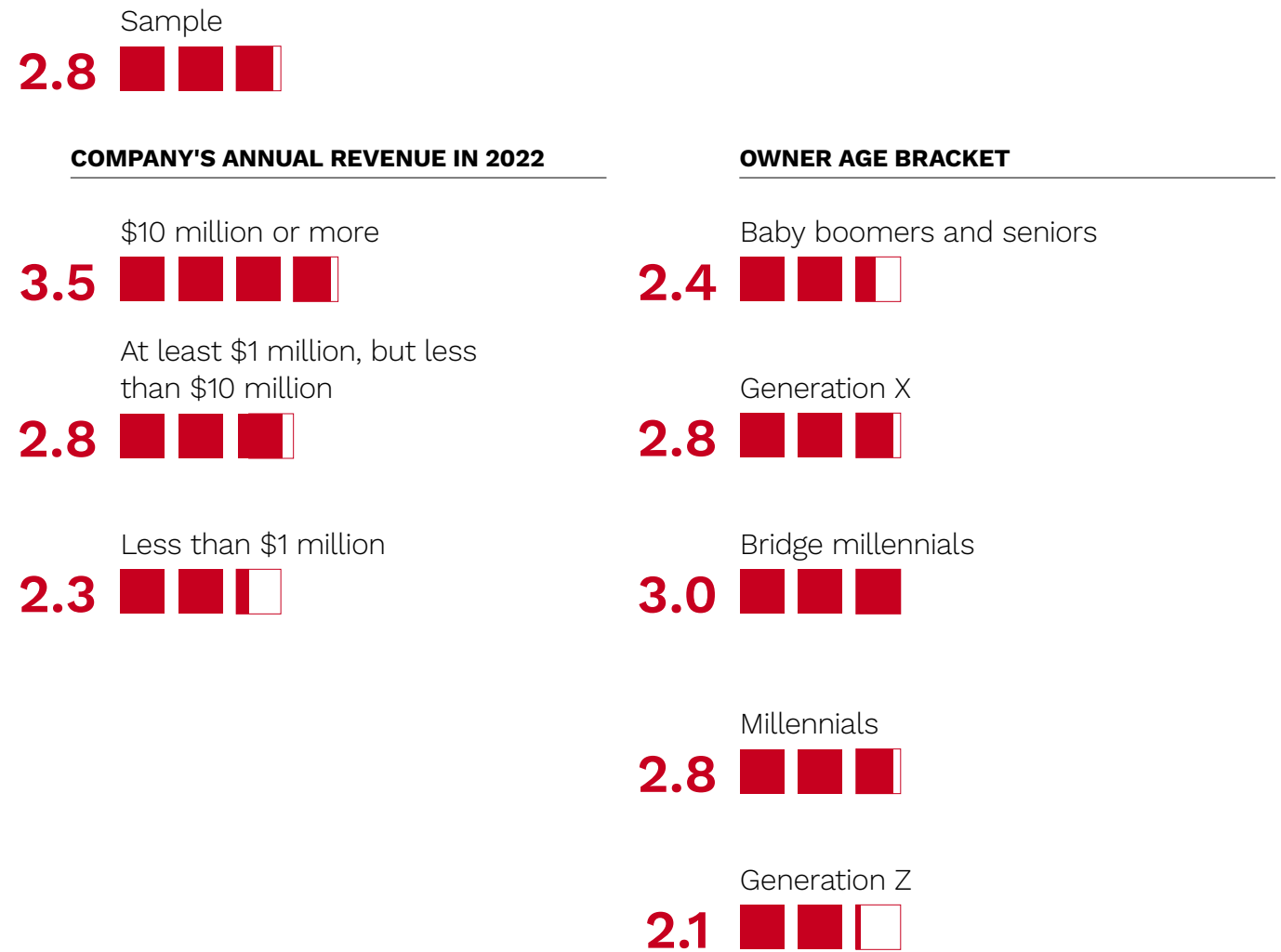
The data also spotlights a generational divide, largely attributed to the varying ages of owners. The number of tools SMBs with millennial and Gen X owners used — averaging 2.8 — outpaced that of SMBs owned by baby boomers and seniors, at 2.4, and Gen Z, at 2.1. These findings suggest preferences are likely influenced both by the scale of operations and by the owner’s attitude toward financial tools.

The reasons SMBs leverage borrowing tools reflect their varied strategic objectives. Sixty-eight percent of firms surveyed that used a borrowing tool in the last 12 months did so for business expansion, 55% for operational efficiency and 48% for financial stability. However, priorities vary by business size. Low-revenue SMBs place much

FIGURE 3:

Number of borrowing tools used

Average number of borrowing tools used per SMB, by annual revenue and SMB owner’s generation



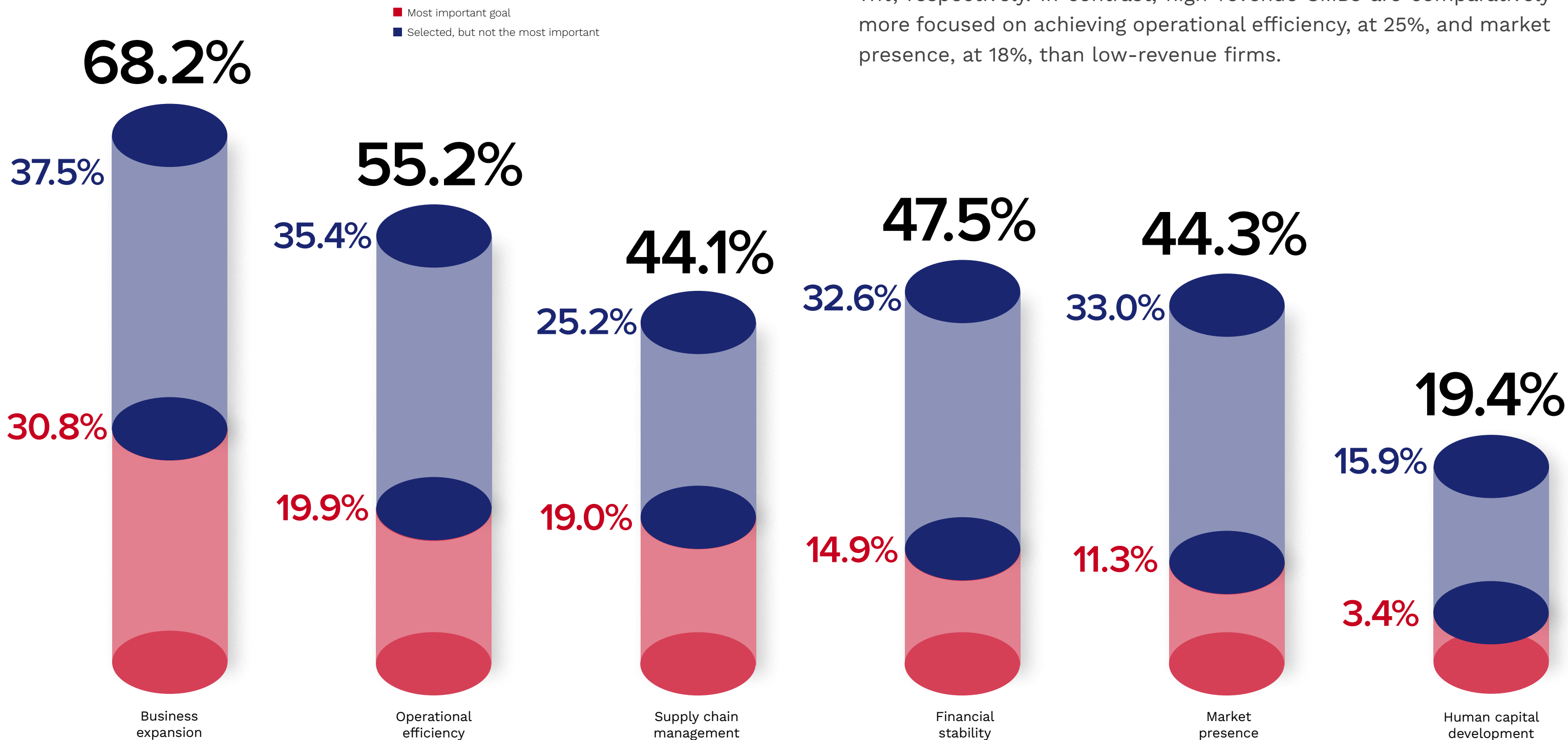
Source: PYMNTS Intelligence

SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024
 N = 2,392: Executives from SMBs that used a borrowing tool in the last 12 months, fielded Oct. 9, 2023 – Nov. 17, 2023

FIGURE 4:

Goals for using borrowing tools

Share of executives citing select goals they expect to achieve by using a borrowing tool, by level of importance



greater emphasis on supply chain management, at 28%, than high-revenue firms, at 11%. Similarly, low-revenue SMBs prioritize financial stability disproportionately more than high-revenue firms, at 19% and 11%, respectively. In contrast, high-revenue SMBs are comparatively more focused on achieving operational efficiency, at 25%, and market presence, at 18%, than low-revenue firms.

Source: PYMNTS Intelligence

SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024

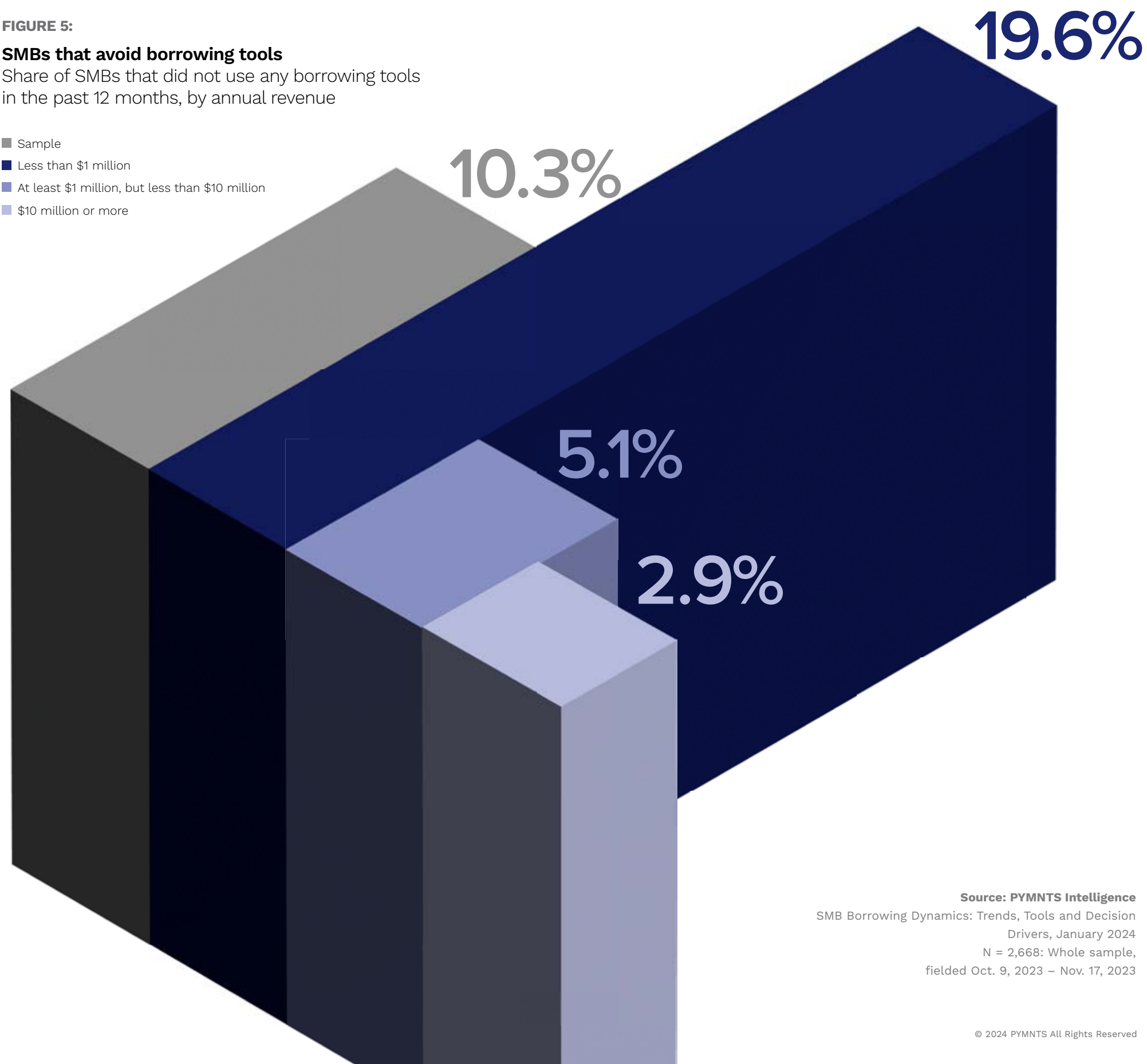
N = 2,392: Executives from SMBs that used a borrowing tool in the last 12 months, fielded Oct. 9, 2023 – Nov. 17, 2023

Revenue size is a strong predictor of borrowing strategy and comfort with leveraging debt: 20% of low-revenue SMBs avoid borrowing completely.

SMBs' borrowing behavior and annual revenue exhibit a clear correlation. Twenty percent of low-revenue SMBs refrained from using any borrowing tool in the year leading up to our survey, while just 5.1% of medium-revenue and 2.9% of high-revenue SMBs did the same. This disparity not only highlights smaller SMBs' cautious stance on borrowing but also suggests a potential gap in accessible borrowing tools targeting lower-revenue firms. The uneven borrowing field across different revenue tiers suggests a potential market opportunity for FIs willing to lend to this segment.

FIGURE 5:
SMBs that avoid borrowing tools
 Share of SMBs that did not use any borrowing tools in the past 12 months, by annual revenue

- Sample
- Less than \$1 million
- At least \$1 million, but less than \$10 million
- \$10 million or more

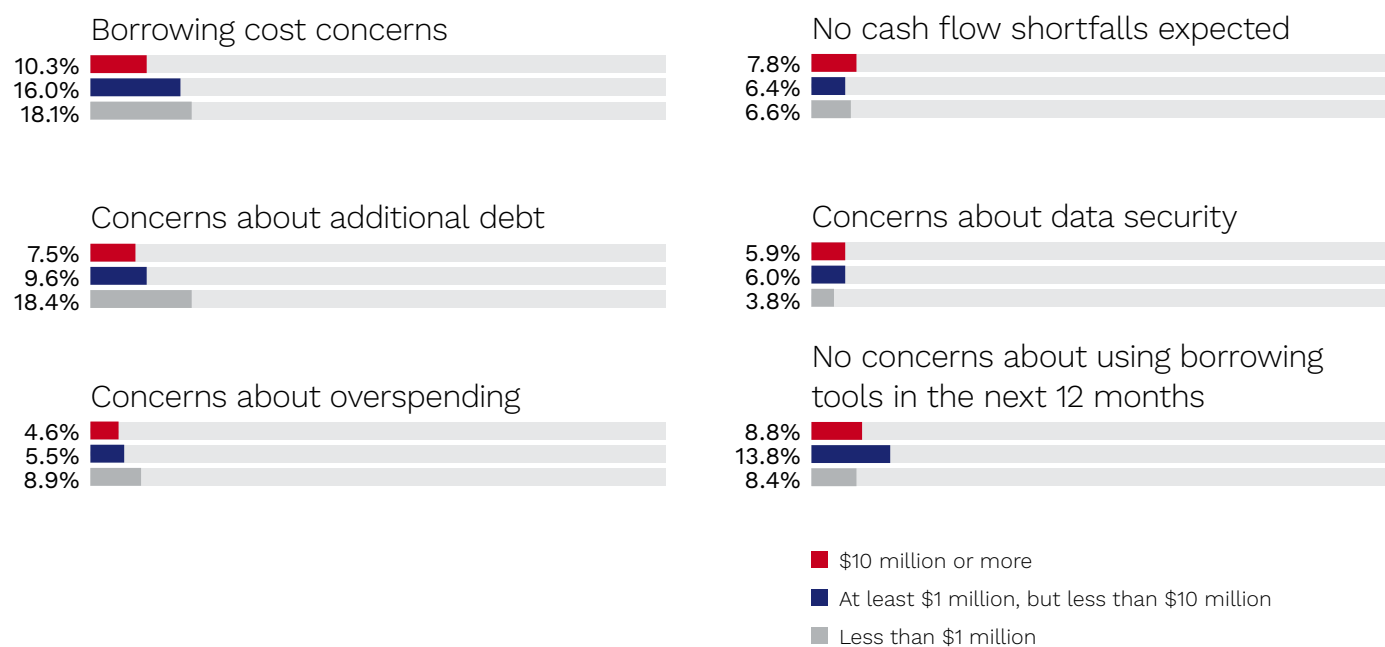


Source: PYMNTS Intelligence
 SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024
 N = 2,668: Whole sample, fielded Oct. 9, 2023 – Nov. 17, 2023

Looking at SMBs' concerns about borrowing reveals that cost and managing debt levels stand out as the predominant barriers, though the level of concern varies across revenue categories. The data shows that 34% of SMB executives overall highlight borrowing costs as a concern. Among those who cite it as the most important concern, it is particularly acute for low-revenue SMBs: 18% cite cost as their most significant concern, compared to just 10% of high-revenue SMBs. Similarly, taking on additional debt is the most pressing fear

for 18% of low-revenue firms. Meanwhile, 7.8% of high-revenue SMBs say they do not plan to borrow because they do not anticipate any cash flow shortfalls, while just 6.6% of low-revenue and 6.4% of medium-revenue SMBs say the same. This pattern underscores perceived barriers to borrowing among lower-revenue SMBs, highlighting potential demand for accessible financial solutions tailored to their needs.

FIGURE 6:
Reasons SMBs do not use borrowing tools
 Share of SMB executives citing select concerns preventing them from using a borrowing tool, by annual revenue



Source: PYMNTS Intelligence
 SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024
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18%

of SMBs generating revenue of less than \$1 million cite **cost concerns** as a reason they do not use borrowing tools.

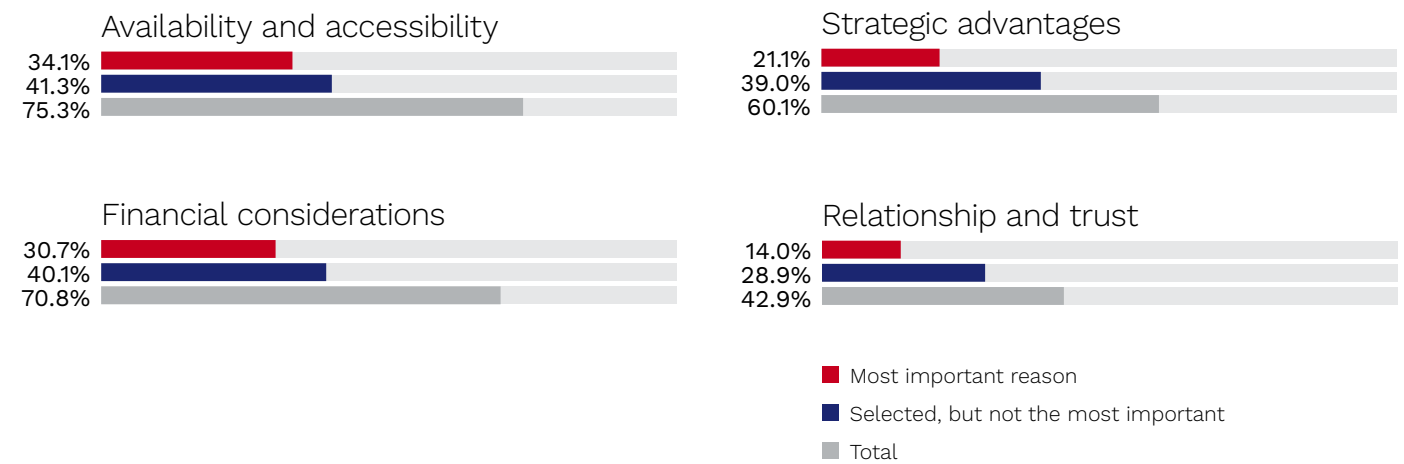
SMBs widely prioritize accessible borrowing tools that make financial sense for their needs.

In evaluating and using borrowing tools, 75% of SMBs cite the availability and accessibility of funds as a key concern. This underscores SMBs' basic but essential need for flexible financing solutions. Seventy-one percent, meanwhile, point to financial considerations, such as favorable payment terms (33%), lower borrowing costs (26%) and the potential to boost credit scores (23%) as important. Relationship and trust factors, however, resonate significantly less, with just 43% of SMBs citing them as important and just 14% citing them as their top consideration.

FIGURE 7:

Reasons for choosing a borrowing tool

Share of SMB executives citing reasons for preferring to use select borrowing tools over others, by level of importance



Source: PYMNTS Intelligence

SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024
 N = 2,392: Executives from SMBs that used a borrowing tool in the last 12 months, fielded Oct. 9, 2023 – Nov. 17, 2023

SMB preferences for select borrowing tools correlate with the owner’s age. For example, 37% of SMBs owned by baby boomers and seniors emphasized the importance of availability and accessibility, whereas those owned by Gen Z and millennials were less swayed by these features, at 28% and 29%, respectively. Financial considerations, however, were more important for SMBs owned by millennials (34%), bridge millennials (31%) and Gen X (33%), compared to baby boomers and seniors (24%) or Gen Z (23%). Gen Z SMB owners tended to value relationships with and trust in their FIs highly, with 22% naming these factors as their top criteria for preferring to use a select borrowing tool over alternatives — nearly double the share of millennial owners who said the same.

FIGURE 8:

Most important reasons for choosing a borrowing tool

Share of SMB executives stating their most important reason for preferring to use select borrowing tools over others, by SMB owner’s generation

	Generation Z	Millennials	Bridge millennials	Generation X	Baby boomers and seniors
• Availability and accessibility	28.3%	29.2%	34.7%	34.1%	36.5%
• Financial considerations	23.3%	34.3%	31.2%	33.0%	23.6%
• Strategic advantages	26.7%	24.5%	20.1%	19.4%	24.9%
• Relationship and trust	21.7%	11.6%	13.8%	13.5%	14.8%

Source: PYMNTS Intelligence

SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024

N = 2,392: Executives from SMBs that used a borrowing tool in the last 12 months, fielded Oct. 9, 2023 – Nov. 17, 2023



DATA FOCUS

SMBs opt for borrowing strategies that balance immediate financial needs with long-term goals.

Most SMBs prefer to use different borrowing tools for planned versus unplanned expenses.

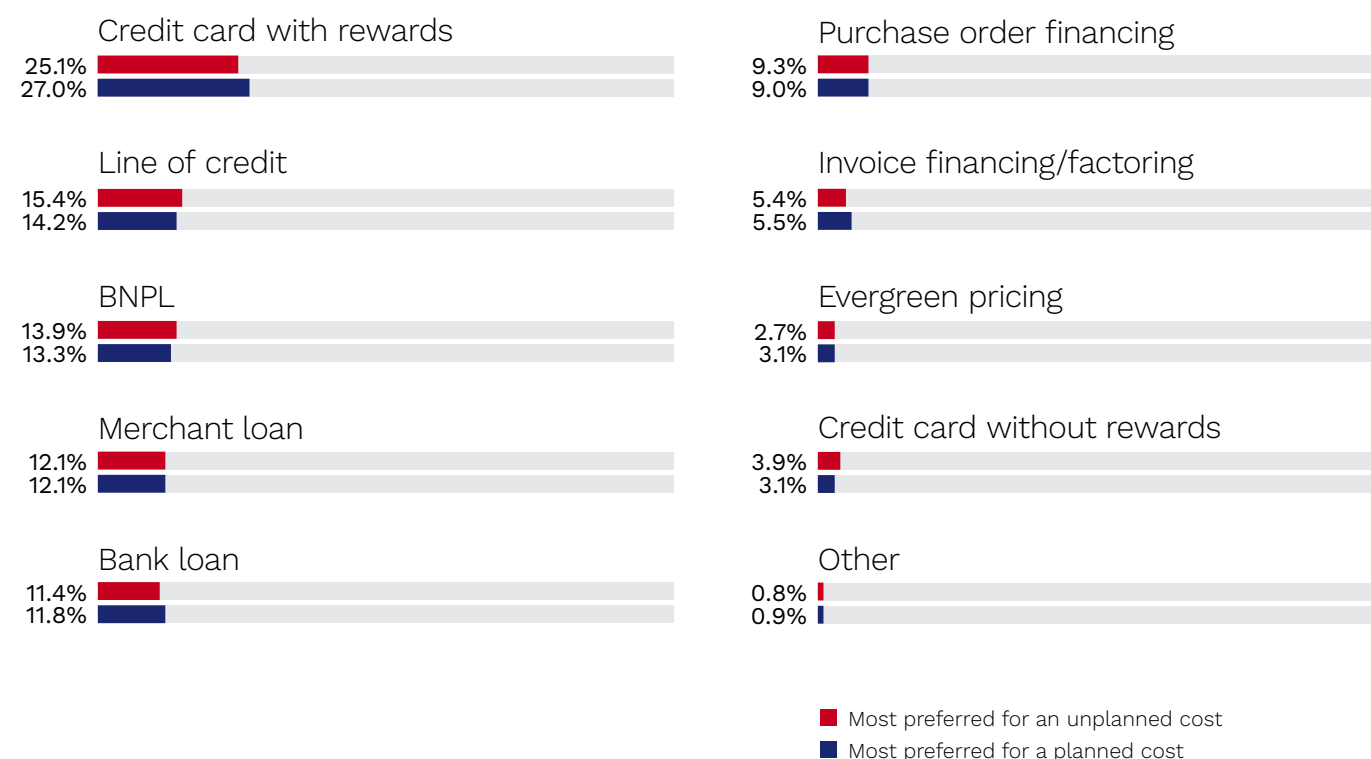
SMB executives demonstrate adaptability in choosing borrowing tools, especially when deciding on the right tool for planned and unplanned expenses. PYMNTS Intelligence’s data shows that 53% of these executives would opt for different tools based on whether the expense is planned or unplanned. Specifically, 34% favored their most preferred tool for planned costs and switched to an alternative for unplanned ones, while 19% took the opposite approach. The other 47% consistently would use their preferred borrowing tool for all expenses, planned or unplanned.

Rewards credit cards lead for both planned and unplanned costs, with SMB executives showing a slight preference for deploying these for planned costs, likely to maximize their ability to earn rewards. Lines of credit and BNPL follow, with executives slightly more likely to reach for these to cover unplanned expenses. Overall, these preferences reflect a balancing act between immediacy and long-term planning, suggesting that borrowing tools that marry flexibility and benefits might be particularly appealing to SMBs, especially for managing unforeseen costs.

FIGURE 9:

Borrowing tool preferences for planned and unplanned costs

Share of SMB executives citing select borrowing tools as their most preferred based on whether an expense is planned or unplanned



Source: PYMNTS Intelligence
 SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, January 2024
 N = 2,668: Whole sample, fielded Oct. 9, 2023 – Nov. 17, 2023

ACTIONABLE INSIGHTS



01

FIs should focus on providing a diverse range of borrowing tools to meet SMBs' varied needs. They should prioritize rewards credit cards, given their leading appeal to SMBs of all sizes, as well as offer a variety of revolving and fixed-term products, including lines of credit, BNPL and standard loans. Notably, SMBs widely use multiple borrowing tools and prefer to have different options at their disposal for planned and unplanned expenses.



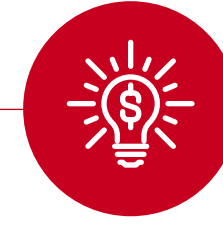
02

Generational differences have a significant impact on the preferences of SMB decision-makers when it comes to borrowing tools. Offering a mix of traditional and innovative borrowing tools can cater to the diverse needs of millennial and Gen X SMB owners, many of whom show a penchant for a wider array of tools compared to not only their baby boomer and senior counterparts but their Gen Z counterparts as well.



03

Many lower-revenue SMBs are especially cautious in their approach to borrowing, with one-fifth avoiding it entirely. They worry about the inability to manage debt and the costs of borrowing. FIs can expand their customer base by developing and marketing products that address these and other concerns smaller SMBs hold.



04

FIs should prioritize pragmatism and efficiency in their borrowing tool offerings. Indeed, flexibility and financial considerations outweigh relationship and trust for the typical SMB, regardless of revenue level. Emphasizing features such as favorable payment terms and lower borrowing costs can substantially boost the appeal of borrowing tools for SMBs.

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METHODOLOGY

SMB Borrowing Dynamics: Trends, Tools and Decision Drivers, a PYMNTS Intelligence and U.S. Bank collaboration, is based on a survey of 2,668 executives at SMBs generating less than \$25 million in annual revenue conducted between Oct. 9, 2023, and Nov. 17, 2023. This report examines SMBs across different industries to explore the motivations and determinants that drive business decisions related to different borrowing tools, and the extent that factors such as revenue size and the business owner's age impact borrowing preferences.

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ABOUT

PYMNTS INTELLIGENCE

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