

Payments Executive Brief:

Strengthening Small-Business Relationships with Payments

August 2020, Issue No. 12

Small businesses comprise 99.9 percent of all businesses in the U.S. and drive 44 percent of the country's economic activity, making them the foundation of the nation's economy. And while small businesses employ nearly 60 million Americans, the vast majority—78.5 percent—represent businesses without employees. The number of these microbusinesses has trended up over the past decade, while the number of small businesses with employees has remained flat.

Consequently, strategic service offerings for small businesses may look different than traditional treasury management solutions. With a continued migration to and preference for digital payments—81 percent consider robust digital banking capabilities as important or very important—opportunities exist for community banks to strengthen their connection to this significant market, which is valued at upwards of \$370 billion annually.

Solving for Small-Business Payments Pain Points

Community banks have long served the small-business market, but given the pandemic impact [see sidebar], new opportunities have emerged to support these customers' payments needs and address areas of friction.

- **Cash flow, payables, and receivables**—Small businesses rely on their payments and cash flow, but in today's pandemic environment, it's become paramount. In fact, 40 percent reported that their cash outflow has been greater than inflow over a 30-day period. They are looking to trusted partners to provide an easy way to track and manage cash flow.
- **A fractured banking experience**—Between accounting, bookkeeping, invoicing, bill payment, and payment acceptance, small businesses spend more than \$500 billion annually. Using a patchwork of providers complicates their finances. Many would consider obtaining accounting and payments services from a bank if it helped to streamline operations; they crave simplicity and efficiency.
- **Payments acceptance**—Using multiple platforms leads to disjointed payment acceptance issues. With more than half of small businesses accepting nine or more payment types, small businesses contend with a multitude of payment gateways and locations. Simplifying these issues enables small businesses to be more efficient.
- **Transitioning to modern payment types**—Checks still account for approximately 42 percent of all B2B payments, but small businesses are embracing alternative payment types and want options. Specifically, 40 percent of businesses with revenues between \$250,000 and \$499,000 cite use of ApplePay, PayPal, Samsung Pay, Square, Venmo and Zelle—more than the use of cash, check and ACH combined.
- **Lack of awareness of bank-centric solutions**—Remind customers of your capabilities to service their business needs to combat misperceptions held by 40 percent of businesses generating \$100,000 to \$999,999 in annual revenue questioning whether community banks have offerings to meet their small-business customers' needs.



The Impact of COVID-19

While resilient, small businesses have faced challenges during the pandemic...



Small businesses cite cash flow as their top concern.



In fact, 76% have had cash flow shortages, with 37% dipping into personal funds.

...and want community bank assistance to address their needs.



Nearly 50% have adopted or improved their digital capabilities to process transactions quickly.



And 42% said they would switch providers in order to have access to real-time settlement.

Capitalizing on Today's Small-Business Payments Opportunity



\$370 Billion
The overall small-business market opportunity*

*Cornerstone Advisors

Approximately 85 percent of U.S. banks believe increasing their success with small businesses is critical to their bank's overall success, and payments are a key component to that effort.

- **Expand payments program offerings.** Small businesses are willing to pay for solutions that help them better track cash flow activity and automate manual processes, including payroll/direct deposit services. In addition, they are looking for “valuable” services like user-defined dashboards (73 percent) and customizable reports (69 percent). Explore opportunities with service providers for innovative or helpful products like bill payment or bookkeeping, quickly to market.
- **Grow your business through existing business.** Offer your small businesses new origination services, like wire and ACH, and/or suggest services like positive pay, remote deposit capture, or direct deposit. Small-business owners often bring their personal banking relationship with them, so check with the account owner if you don't already hold their personal account. On the flip side, review payments transaction data—like direct deposit or vendor payments—to help you identify small-business and startup accounts that may present as traditional consumer accounts.
- **Identify efficiencies.** Small-business owners spend more than 18 hours per week on accounting and payments functions. If you can help them streamline their operations, it will deepen your relationship.
- **Support their future success.** Assist your small-business customers in creating a savings strategy—of which payments are one component—that looks to the future. Demonstrating your commitment to their success will further position you as their trusted partner.

On the Horizon

While many products and services support small businesses today, emerging payment options offer additional potential.

- **Real-time payments**—With clear line of sight into payment receipts and disbursements, real-time payments will provide small businesses with increased transparency into cash flow and immediacy for last-minute payments.
- **Enhanced digital payments**—Small businesses are looking for a user experience that's customized and facilitates simple electronic payments. Additional payment upgrades—from online transfers to B2B that works like P2P—will support their future payment needs.

Leveraging Payments to Enhance Small-Business Relationships

- ① **Take advantage of your strong performance with the Paycheck Protection Program (PPP).** Now's the time to grow your small-business customer base. Community banks provided approximately \$330 billion in federal loan aid to their small-business customers, and that goodwill creates a new opportunity to strategically select your growth market. In fact, nearly six in 10 said they're “very” or “somewhat” likely to look for a new banking relationship in the next year.
- ② **Communicate about your existing digital payments services.** Make sure your small-business customers know about your digital payments capabilities, including mobile banking, contactless cards, card controls, and more. Consider hosting virtual “lunch and learn” events on how your solutions can address their payments pain points. Overall, 85 percent of small businesses are “completely satisfied” with their banks—the older the small business, the more satisfied they are. Make sure you are checking in on the newer or startup businesses in your portfolio.
- ③ **Monitor for changing behaviors and trends.** Another takeaway from the pandemic is to expect the unexpected. Study small-business customer payment activity to better assess if new habits developed during the pandemic—like increased use of digital services and the use of contactless cards—indicate a shift in payment preferences. Explore what you can do to better address those developments.
- ④ **Continue dialogue with your small-business customers to ensure they recognize you as their trusted partner.** Staying in touch with small-business customers can go a long way: 41 percent of small businesses that have a bank relationship manager report being extremely satisfied.

Your Small-Business Payments Strategy

The important link created between you, your small-business customer, and the overall community strengthens Main Street America and keeps communities vibrant. Part of that connection lies in the payments relationship, and in today's environment, your small-business payments strategy has never been more important. By employing the right approach, you can deepen small business engagement, attract new customers, and strengthen ties with existing small businesses. Watch for additional tools and resources coming soon from ICBA Bancard to support your small-business payments strategy.

For more information, visit www.icba.org.