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Enhancing the Small-Business Payments Experience

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Prepared for:



Introduction

Small businesses have a lot of options when it comes to payments—so many options, in fact, that they don't always know which type of payment to use or the benefits of each.

This white paper, commissioned by Apiture but independently authored by Datos Insights, will help banks and credit unions better understand what they need to do to enhance the payment experience for their small-business customers/members and win a larger share of their business. It will focus primarily on small-business payment knowledge and preferences, the importance of speed of payment, and the type of data financial institutions (FIs) can provide. It will also explore small-business interest in mobile payments and the importance of a multichannel offering.

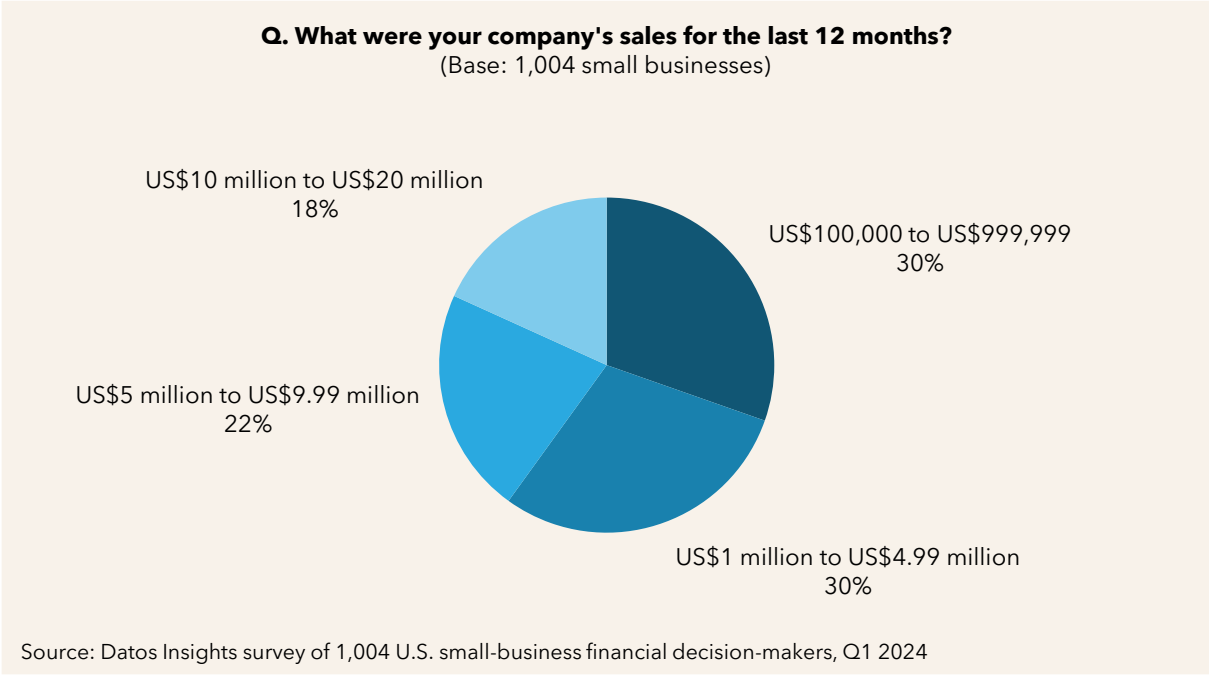
Methodology

This paper is based primarily on the results of a Q1 2024 Datos Insights online survey of 1,004 U.S.-based small businesses. For the purposes of this paper, "small businesses" are defined as those businesses generating between US\$100,000 and US\$20 million in annual revenue. While this revenue range extends beyond how some banks or credit unions may define the segment, this revenue range represents a large opportunity for financial institutions. 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.

Figure 1 breaks down survey participants by their annual revenue.

Figure 1: Breakdown of Survey Participants by Annual Revenue

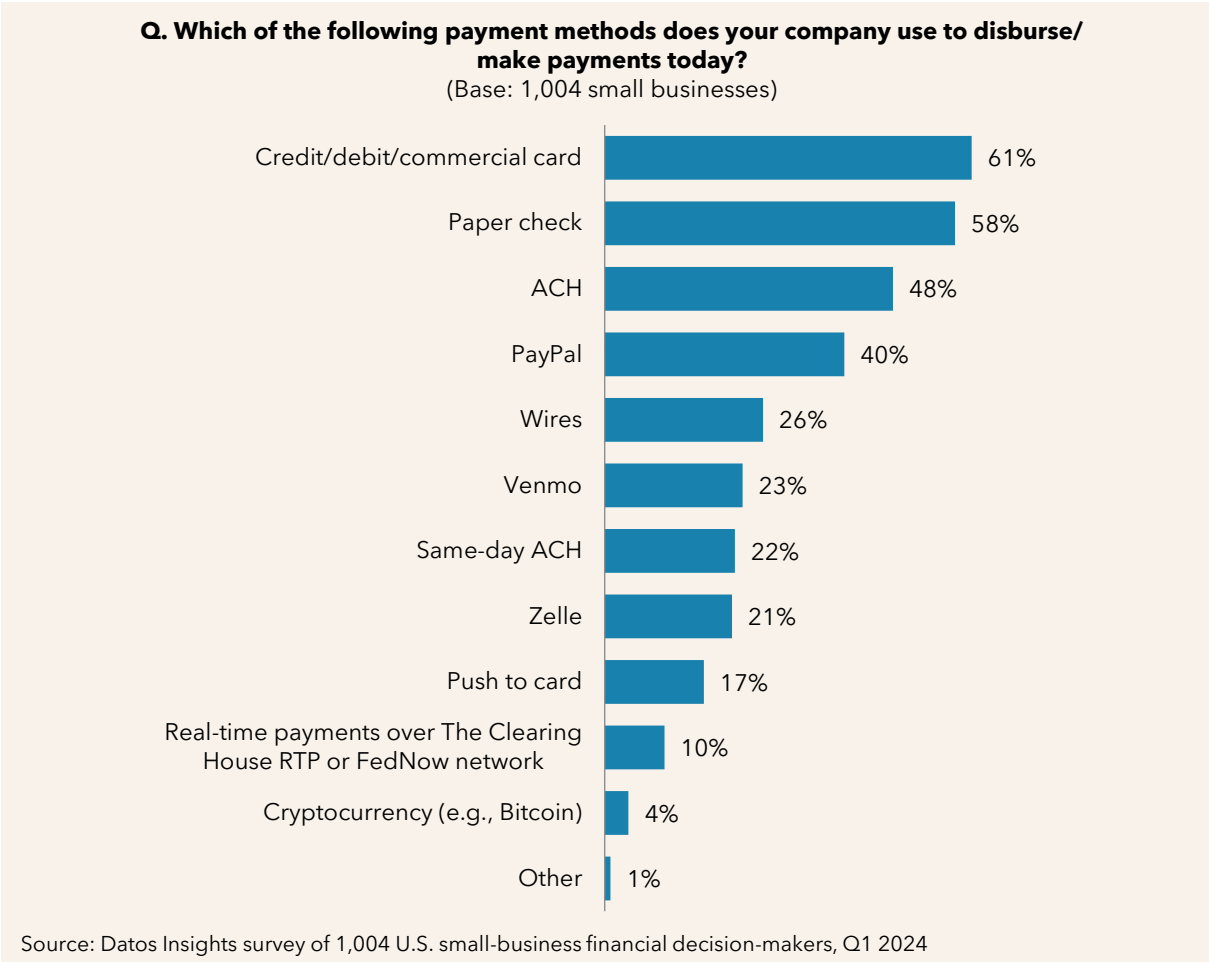


Small-Business Payments

Small businesses engage in many financial transactions, spanning various payment types. Check usage continues to drop, but checks remain critical components of most small-business payment strategies. Credit cards are the most widely used and are a potential area for future revenue for banks and credit unions that can convince businesses to convert some of that volume to digital payments. More than a quarter of small businesses already leverage digital payments, especially the more traditional types (e.g., ACH, wires), and their usage continues to grow. Finally, newer, faster payment vehicles such as same-day ACH, Zelle, and real-time payments continue to build momentum.

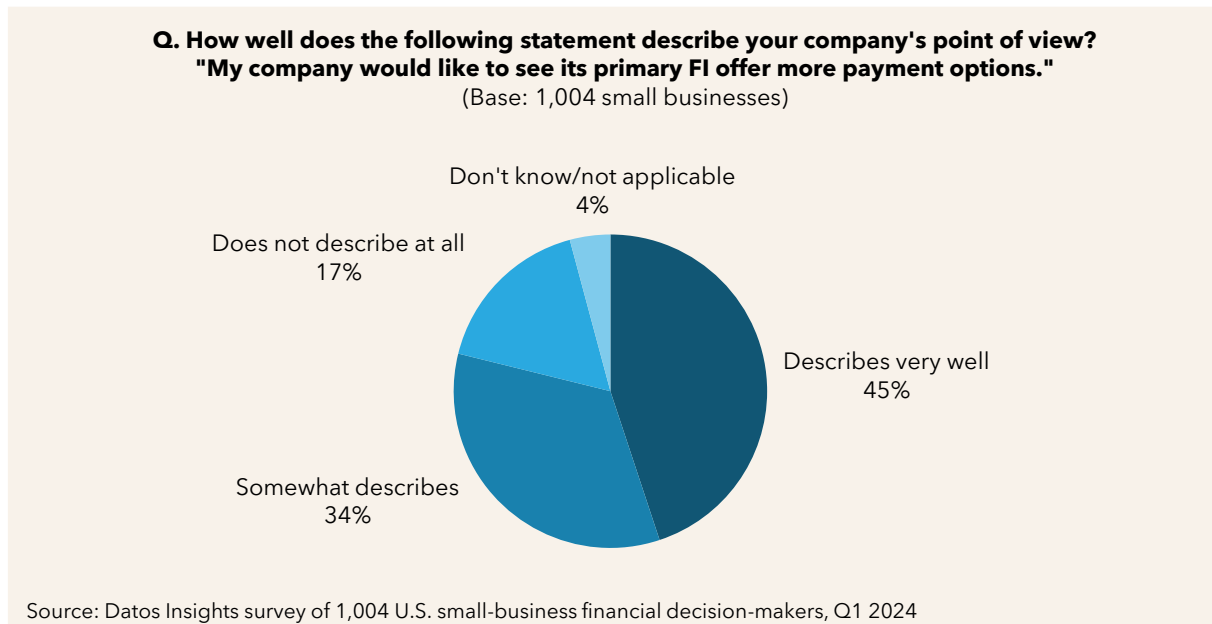
Thus, FIs must offer a full breadth of payment options when serving small businesses (Figure 2).

Figure 2: Payment Methods Used by Small Businesses



As small businesses broaden their payment choices, many FIs are not keeping pace. Among businesses surveyed, 79% want their primary FI to offer more options (Figure 3).

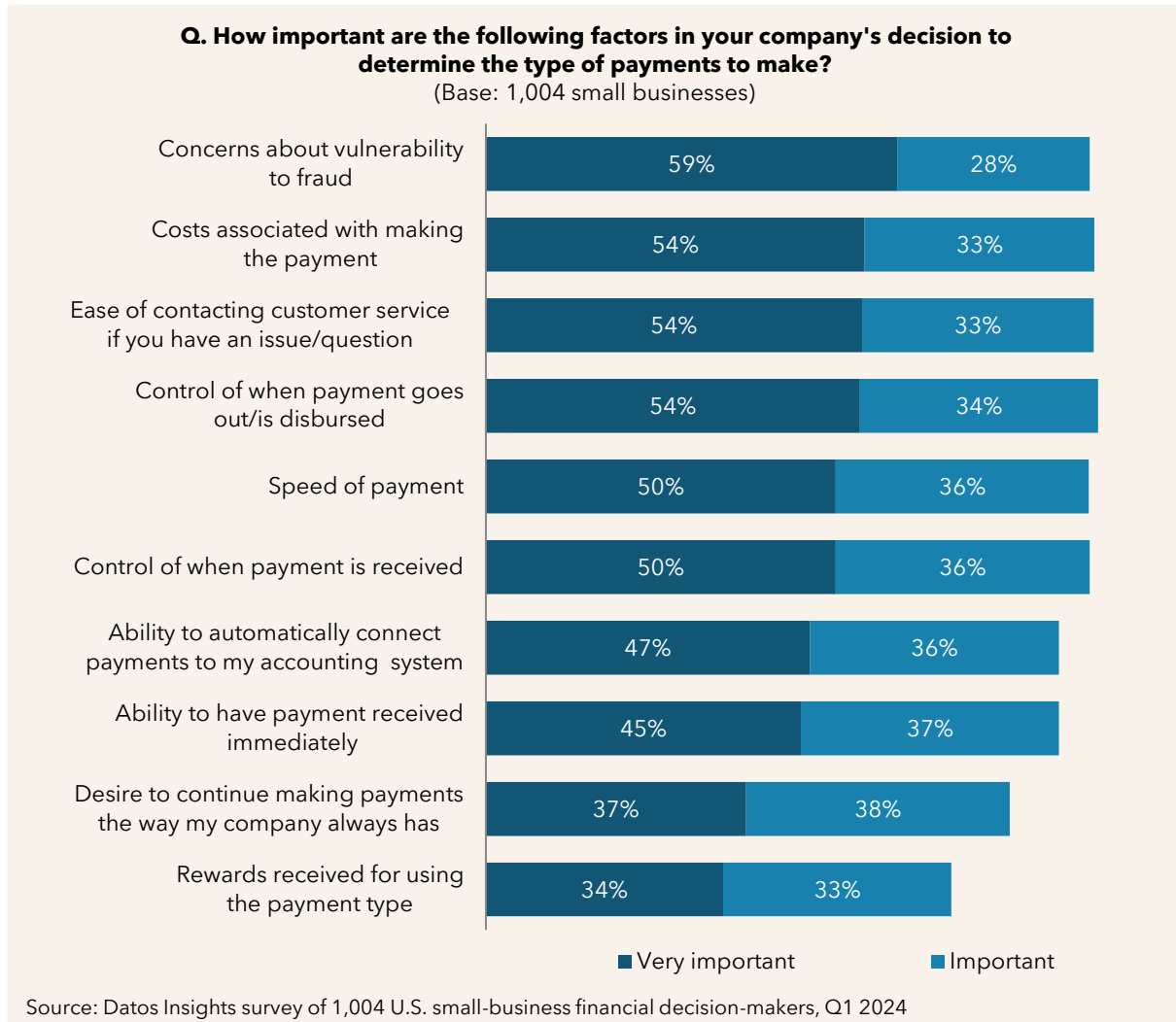
Figure 3: Desire for More Payment Options



A lack of options, especially faster payments, can lead to attrition and is a key factor driving 61% of small businesses to fintech companies. Taking action can prevent this. Among those businesses leveraging a fintech, 83% admit that if their primary FI offered the same capabilities, their preference would be to get the capabilities from their primary FIs, which they trust and have deeper relationships with. However, the number of small businesses looking elsewhere will continue to grow until banks and credit unions do a better job of meeting expectations in the critical payments area.

Key Considerations When Selecting Payment Type

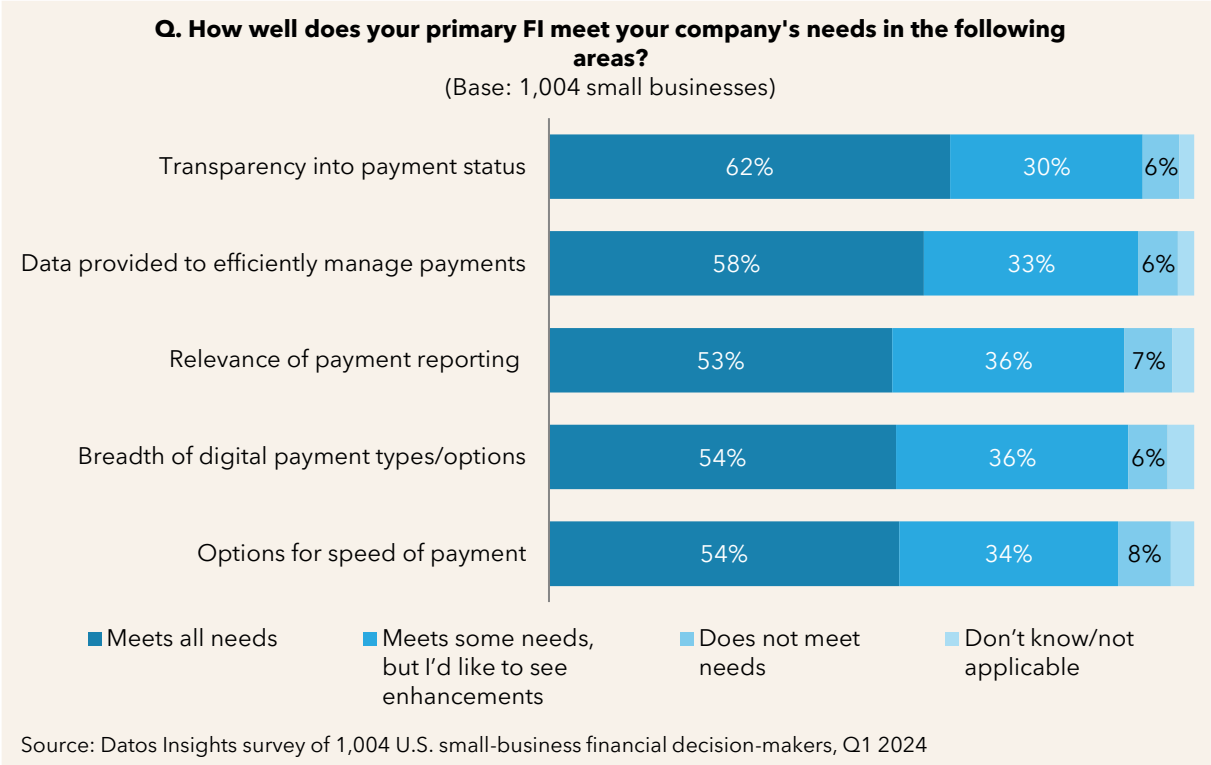
Offering the right breadth of payment options is becoming table stakes for an FI's success, but it is also prudent for FIs to understand what businesses consider when selecting a payment type. Doing so will better position them to implement the right messaging to grow adoption. Vulnerability to fraud, cost, speed, control, and ease of use top the list of factors in the small-business selection process (Figure 4).

Figure 4: Small-Business Considerations When Selecting Payment Type

Feedback on Bank and Credit Union Payment Capabilities

Small businesses want more payment options from both a type and speed standpoint. They also want enhancements to payment data, which is a multifaceted area. More specifically, they want greater transparency into payment status, including confirmation when a payment has been completed. Additionally, they want better payment reporting, which includes more relevant information to assist with money management and improves efficiency (Figure 5). These areas will be explored in greater detail later in the report.

Figure 5: Other Areas Where Small Businesses Want Enhancements

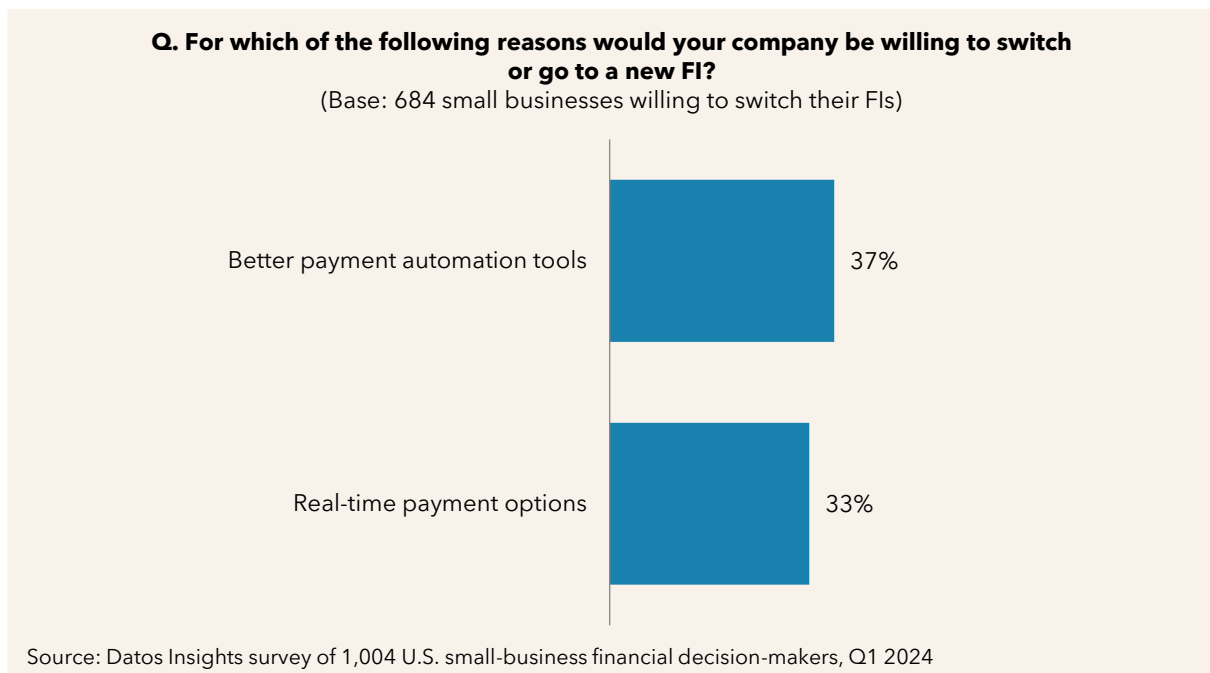


Meeting Small-Business Needs

Payments are extremely “sticky” products for banks and credit unions. Winning and retaining this business is often at the core of the FI/business relationship. Succeeding at winning a customer’s/member’s payments business better positions an institution to be the business’s primary financial partner as well. Thus, offering the right payments capabilities and experiences is table stakes for competing in this space and growing market share/share of wallet.

Of small businesses surveyed, 33% state a high likelihood to switch or consider switching to a new FI in the next two years. Those businesses up for grabs tend to be businesses willing to pay their FIs more than \$25 per month for valuable payment services, further incentivizing FIs to make an effort to win their business. The robustness of an institution’s payment capabilities will be an important criterion for winning their business. In fact, at least one-third of small businesses state a willingness to switch FIs, naming better payment automation tools and real-time payment options as capabilities for which their company would be willing to switch or go to a new FI (Figure 6).

Figure 6: Small Businesses Will Switch FIs for Better Payment Capabilities



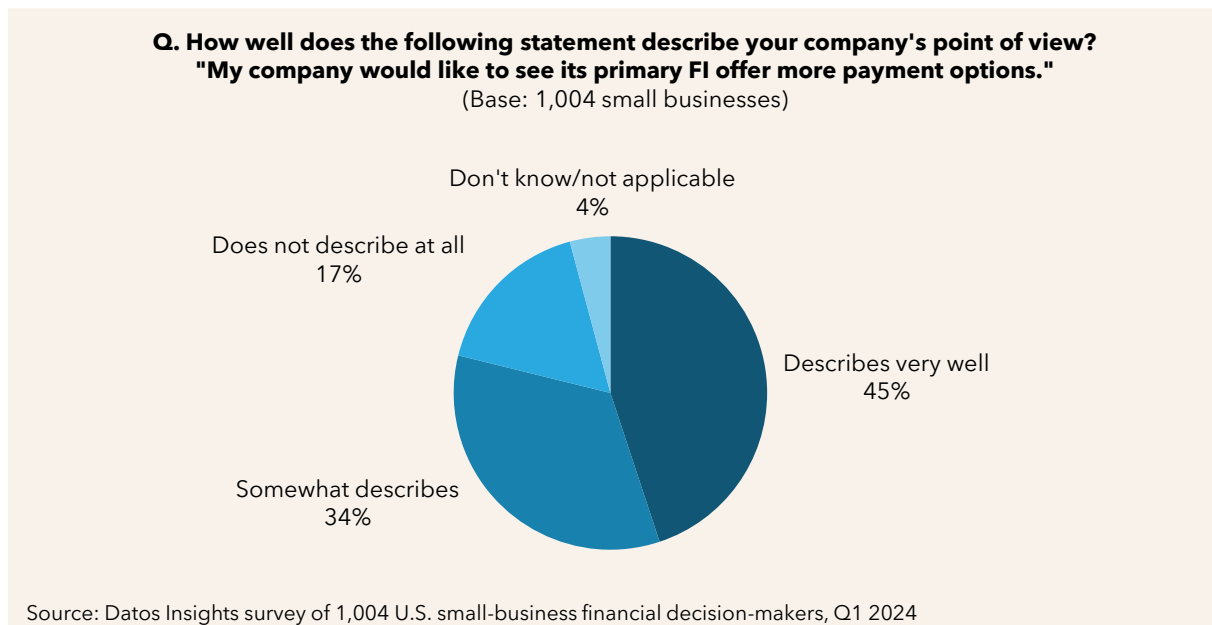
The time has come for FIs to reevaluate their payment offerings and strategies. In doing so, FIs should consider the following:

- Rolling out real-time payment options
- Ensuring a user-friendly payment experience
- Offering tools to help small businesses more effectively manage payments
- Providing a multichannel experience (mobile)

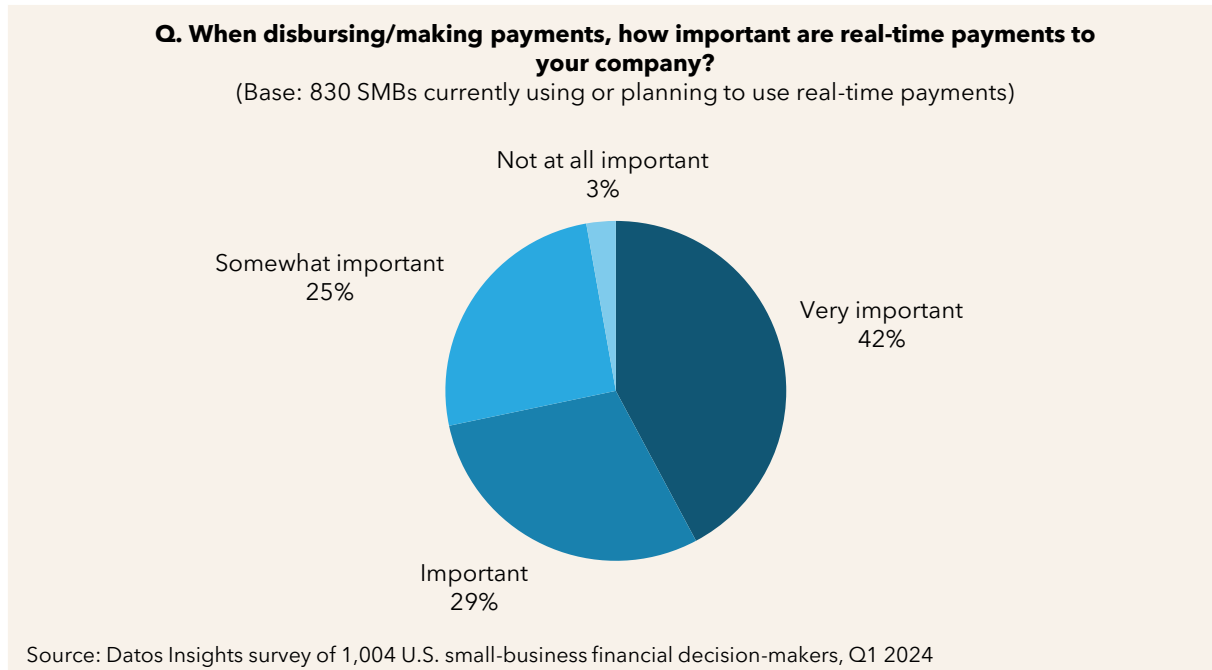
Rolling Out Real-Time Payment Options

As stated previously, small businesses are looking for a full breadth of payment options. Those expectations include the ability to make real-time payments. Small-business adoption of real-time payments is low to date, but these businesses show high levels of interest in using it. Fifty-eight percent of small businesses state an FI's ability to offer real-time or instant payment capabilities is very important or required to keep their business (Figure 7). Small businesses expect their FIs to offer real-time payments regardless of whether they have already adopted it.

Figure 7: Real-Time Payments for Client Retention



Additionally, 71% of those already using or planning to use real-time payments consider it to be important or very important to their company (Figure 8).

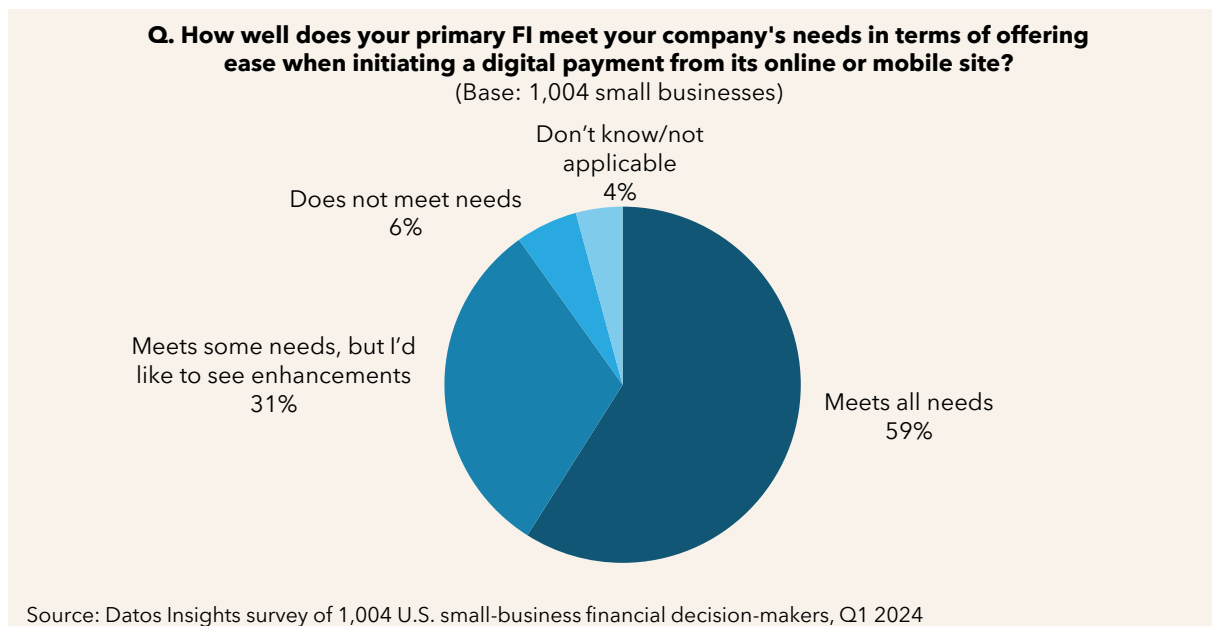
Figure 8: The Importance of Faster Payments

The perceived value proposition for real-time payments has expanded in the last few years. They were initially expected to be useful primarily for urgent payments; now, small businesses see far more benefits, e.g., more efficient and accurate money management and forecasting, greater control, and higher recipient satisfaction (Figure 9).

Figure 9: Perceived Benefits of Faster Payments

Ensure a User-Friendly Payment Experience

Making payments must be easy, efficient, and intuitive. Yet only 59% of small businesses feel their primary FIs meet their needs for ease of initiating a payment (Figure 10).

Figure 10: Ease of Initiating Payments

Small businesses require more user-friendly and intuitive user experiences than their larger-business counterparts. Their payments and finance knowledge is often more limited; they may require more information and assistance.

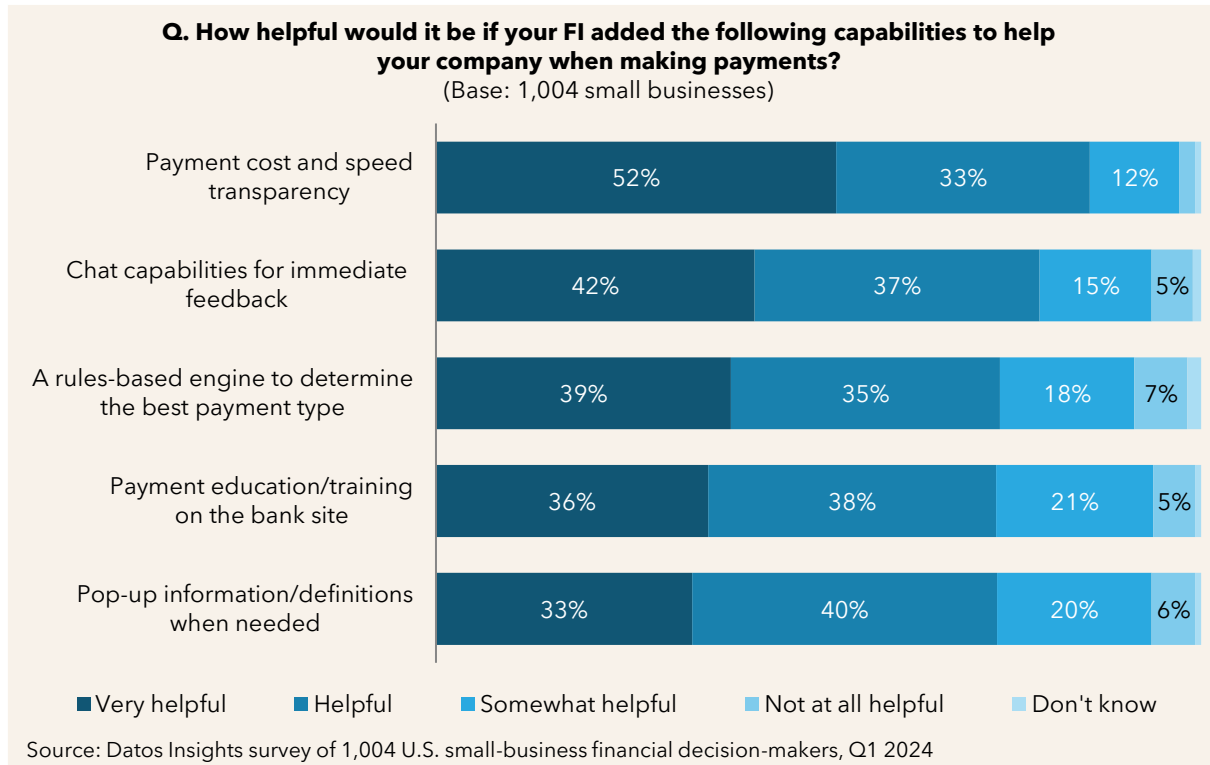
More than 40% of small businesses using their FI's online banking site find it challenging to determine the right payment type to use. Further, 39% of small businesses admit they are only moderately confident or not confident at all that they are making the right payment choice (Figure 11). Such tasks will only grow harder as the number of options continues to grow. This lack of confidence creates an opportunity for FIs to assist small businesses and become more of the trusted partner they are seeking.

Figure 11: Small Businesses Need Help Selecting the Right Payment



Thus, 74% of small businesses would find it helpful or very helpful if their bank or credit union offered them the ability to answer a series of short questions that guide them to the right payment type. Recommendations may be based on when a payment must be received or user willingness to pay extra for greater speed of payment.

Other tools small businesses believe would be helpful as they make payment decisions include a comparison of costs and speed of each payment type, the ability to chat with bank representatives if they have questions, or self-service help and information such as online tutorials and pop-up information (Figure 12).

Figure 12: Tools FIs Can Offer to Help SMBs Select the Right Payment

Implementing these types of enhancements will have a tremendous impact on a small business's user experience. It will likely lead to additional payment and nonpayment business for their FIs. It will also offer FIs an opportunity to differentiate themselves in a competitive market where the bar for user experience has been significantly raised.

Tools to More Efficiently Manage Payments

As mentioned earlier and shown in Figure 5, small businesses want to see their primary FIs investing more in payment capabilities and enhancing the type of data that is presented and how it is reported in order to help them more efficiently manage payments. Essentially, they are looking for their FIs to provide more data-driven insights to help them make better decisions. More specifically, 38% of them are looking for more data to help them reconcile payments. This requires greater data granularity as well as tighter integration across FI systems (and with external accounting systems) to view both cash inflows and outflows. They also want greater visibility into payment limits and timelines with vendors to better identify those that need to be adjusted.

Additionally, data that helps them compare their payment practices to companies with similar profiles is also viewed as valuable and may bring to light changes they should

consider making for greater effectiveness and efficiency. Finally, small businesses want to be alerted or informed about payments at risk of being late based on track record or low account balances. These alerts will enable them to take the necessary action and avoid late fees or those associated with insufficient funds (Figure 13).

Figure 13: Tools to Improve Payment Management Effectiveness



These capabilities require tighter system integration and embedded analytics, an area where most FIs and their technology providers recognize additional investment is needed. Fortunately, advances continue to be made in this area, and much of what has been described is available on the market.

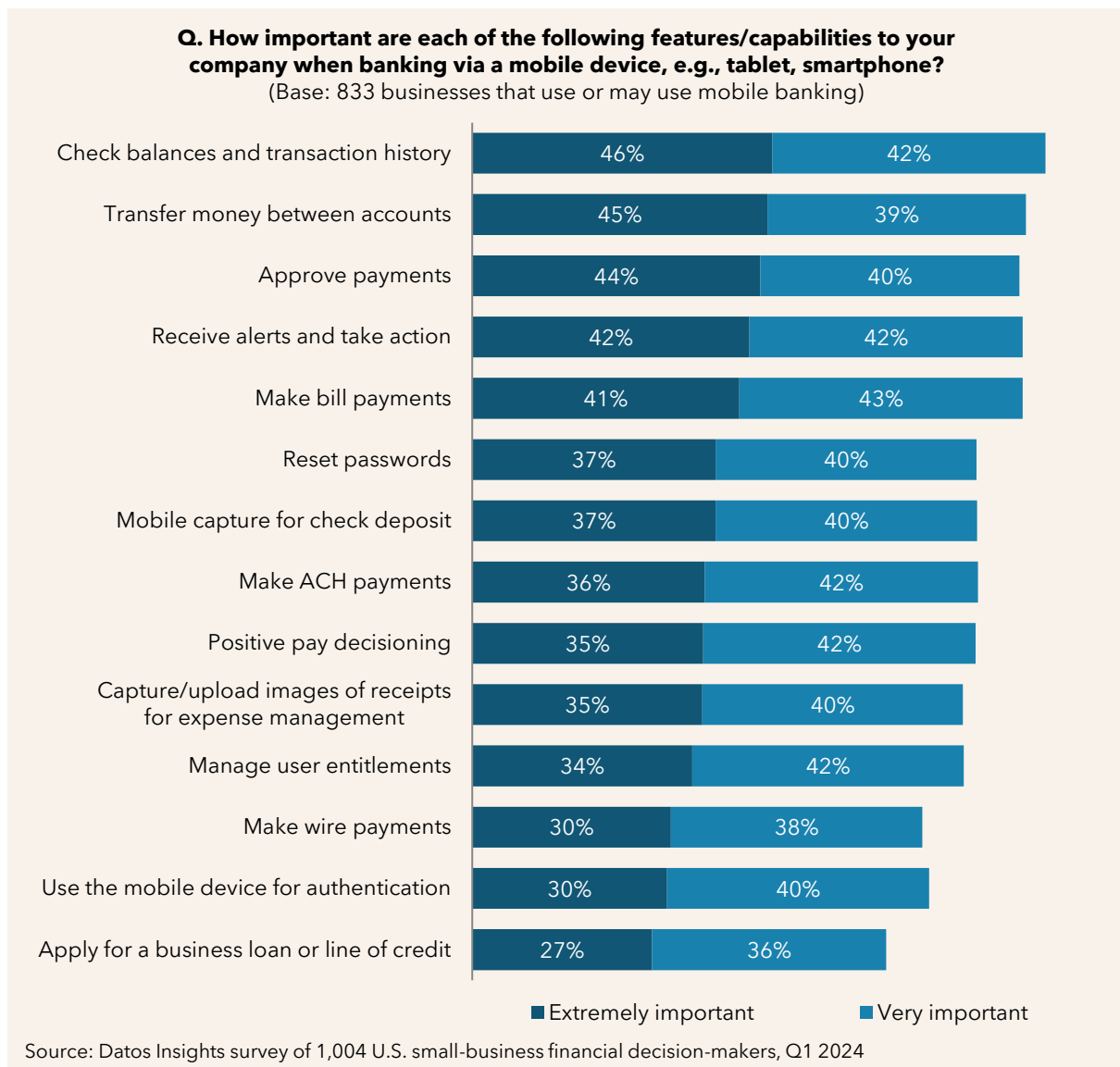
Offer a Multichannel Experience

About 60% of small businesses bank via a mobile device. Among millennial-run businesses, that percentage is 67%. Twenty-seven percent of small businesses not yet banking via a mobile device state they definitely or probably will over the next 18 to 24

months. Thus, FIs can't afford to fall short on continuing to invest in the mobile channel and offering a full suite of capabilities across channels.

The two most important mobile capabilities for small businesses banking via a mobile device are the ability to check balances/transaction history and the ability to transfer money between accounts. The third most important is the ability to approve payments (Figure 14).

Figure 14: Mobile Banking Capabilities



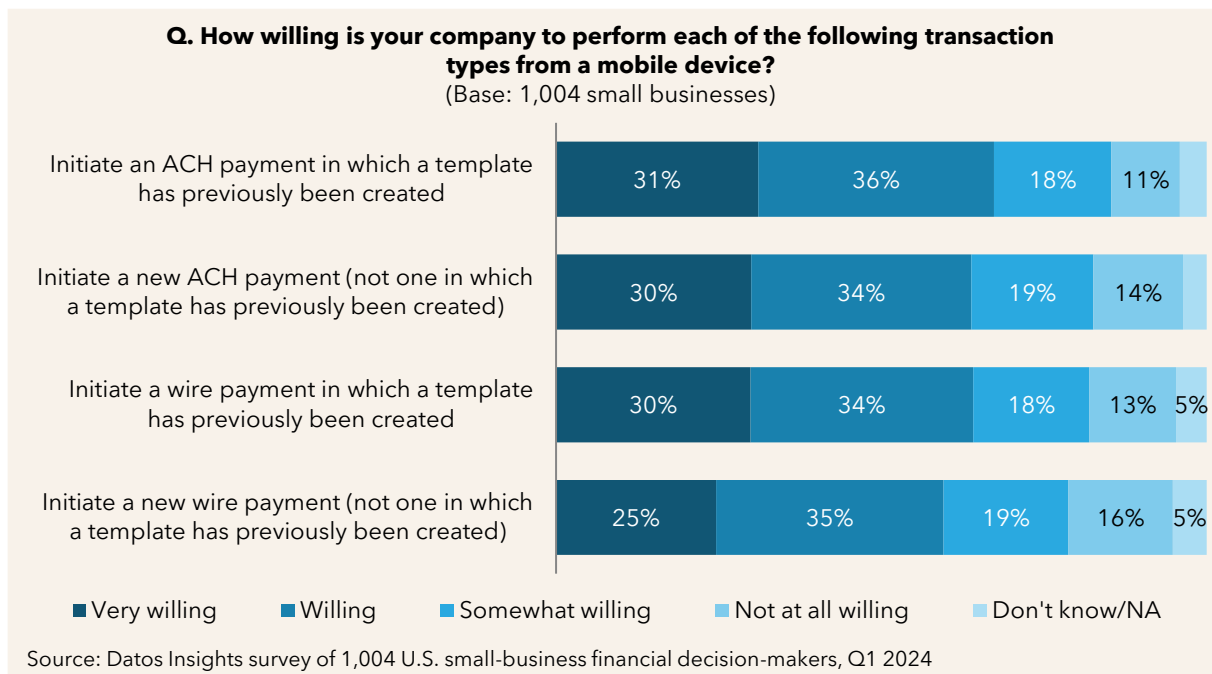
Small-business owners are on the go and need the convenience of having someone back at the office initiate a payment that they can then approve anytime from anywhere. The

mobile channel lends itself well to this convenience. Small businesses also highly value this channel for the ability to receive actionable banking alerts, make payments, and deposit checks through mobile deposit capture. These businesses also see value in completing administrative tasks such as password reset and management of user entitlements via a mobile device.

The ability to originate payments via a mobile device has seen much greater adoption in recent years as businesses have grown comfortable with mobile technology in general, especially as mobile payments have become mainstream in many people's personal lives. Further, the need for robust mobile capabilities will continue to grow in importance as millennial- and Gen Z-led businesses comprise a larger share of the workforce. These individuals have grown up with mobile technology and show a higher willingness to initiate mobile payments compared to baby boomers and some Gen Xers.

While businesses were historically more comfortable initiating only template-based payments on their mobile devices, their willingness to also initiate new and one-off payments (of different types such as ACH and wires) is now almost equal (Figure 15).

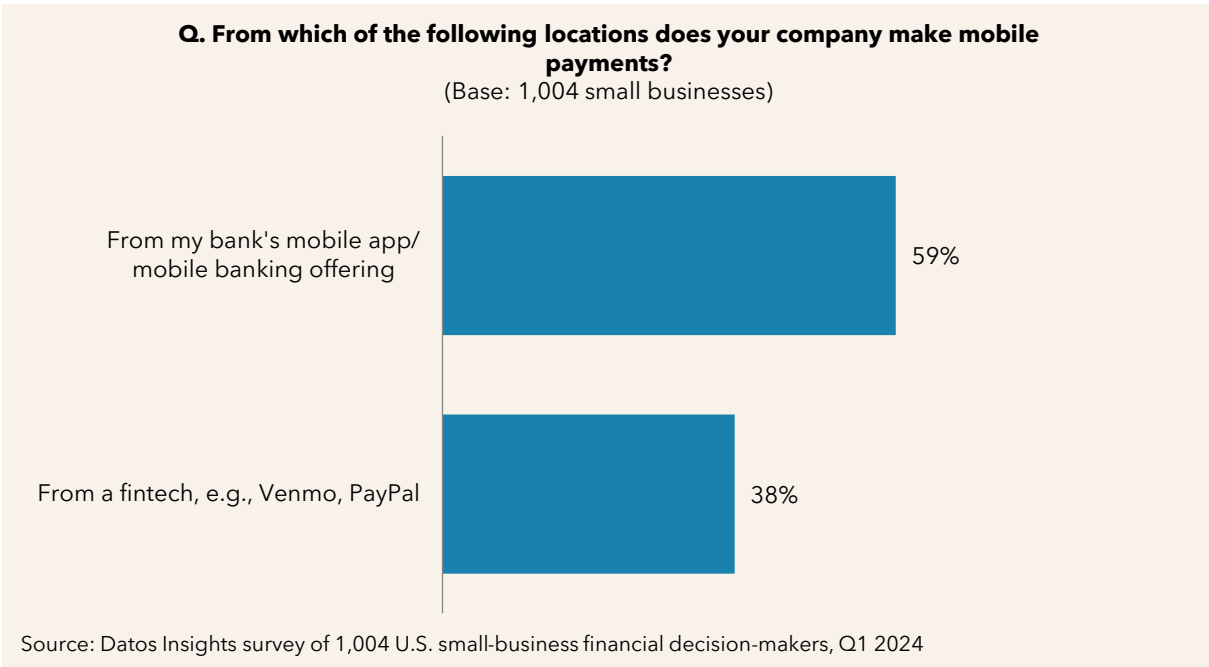
Figure 15: Mobile Payment Initiation



More than half of businesses make mobile payments from an FI's mobile banking offering. That is good news, but 38% do so through a fintech company such as Venmo or PayPal (Figure 16). Their reasons for going beyond their FI are likely the same as those for fintech

online payments: ease of use and capabilities beyond those offered by their bank or credit union. Continuing to invest in a richer mobile experience will help FIs better secure that business.

Figure 16: FI vs. Fintech Mobile Payments Usage



Further, 57% of small businesses consider the ability to make mobile payments to be important or very important to their business, and 27% of businesses not yet banking via a mobile device state they definitely or probably will over the next 18 to 24 months. FIs cannot afford to ignore this channel.

Conclusion

Building deeper relationships with small businesses is critical to any FI's future success, regardless of the FI's size. Central to achieving those relationships is securing more of their payment business. This business is sticky, offers an important potential revenue stream, and sets an institution up to be the business's primary FI.

However, success will not come easily. It requires investments in key areas, such as faster payments, an intuitive user interface with automated assistance where needed, additional tools for more effective payment management, and the possibility of initiating transactions via multiple channels. Prioritizing these initiatives and next-generation technology platforms that are modern and align with these initiatives will best position an institution to attract new customers while retaining existing ones to grow market share.

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