Small Business Payments Spotlight

Exploring payments-focused attitudes and behaviors among U.S. small business owners and consumers

3rd EDITION | FALL 2019
2019 Small Business Payments Spotlight

As emerging technology reshapes the payments industry, small businesses are turning to eCommerce and expanded payment options to attract consumers and create positive customer experiences. Shifting consumer preference is driving the change, with convenience, security and the wealth of product information available online playing key roles in the state of payments today.

The 3rd annual Small Business Payments Spotlight reveals how these factors influence the use of payment methods, how trends in security and eCommerce are changing, and what tactics small businesses are using to find success in an evolving market.

WHO IS BANK OF AMERICA MERCHANT SERVICES?

We bring together market leading payment, eCommerce and security solutions to help small businesses manage operations more efficiently and improve the customer’s purchase journey.

From the latest point-of-sale (POS) technology to fraud prevention tools to turnkey online payment options, we can help small businesses simplify daily management responsibilities and grow consumer loyalty and sales.

Learn more about how Bank of America Merchant Services can put its size, strength and expertise to work for you.

Call 833.713.2151 or visit merch.bankofamerica.com/small-business
KEY FINDINGS

Digital wallets and third-party payment services surge

When shopping in-person at small businesses, the number of consumers choosing to pay with digital wallets like Apple Pay® and Google Pay® has doubled in two years, going from 5 to 10 percent. When it comes to online shopping, third-party payment methods like PayPal® are gaining even more popularity, with usage jumping from 11 percent in 2017 to 27 percent in 2019.

At the same time, debit card usage is down across the board. Despite the decline, it still remains an important and widely accepted payment method that gives consumers another crucial option in their hunt for convenience at check out.

To read more, see page 4

Data breaches cost small businesses significantly more to resolve

Since 2017, the number of small businesses paying over $50,000 to resolve issues related to data breaches has jumped from 31 to 41 percent. On top of that, the number of consumers who will never return to a small business that has had a data breach reached close to 30 percent in 2019. That’s up from 20 percent in 2017.

But small businesses are taking steps to secure card data. EMV® chip card acceptance — which is an important component of data security and fraud protection — has reached an all-time high of 80 percent among small businesses.

To read more, see page 7

Small businesses embrace eCommerce

With 70 percent of small businesses engaging in eCommerce through a website, app or third-party market, many are recognizing the need to go online. Unfortunately, they have to contend with increasingly stringent consumer demands. Top consumer concerns? Shipping costs and speed.

Some small businesses are also disconnected from the way consumers use the internet to research products and services. Since 50 percent of consumers say they won’t shop at a small business if they have negative online reviews, not considering the role reviews have in driving sales can be disastrous.

To read more, see page 8

METHODOLOGY

In the early spring of 2019, Bank of America Merchant Services commissioned Forrester Consulting to conduct two online surveys of 522 U.S.-based small businesses and 509 U.S.-based consumers who purchase goods and services from small businesses.

Survey participants responded to questions about point-of-sale and digital payments, loyalty programs, merchant services, eCommerce and security.

For small businesses to be considered for participation, they had to be based in the U.S., generate between $100,000 and $5 million in annual sales and employ no more than 499 people.
Consumers hunt for convenience at check-out

Digital wallets and third-party payment services both doubled in usage within two years, demonstrating that the increased convenience and security are starting to attract more consumers beyond the typical early adopters.

Among the top payment methods, debit is the only one that saw decline in use, but it’s still widely used by consumers and remains a preferred payment method.

How consumers choose to pay at small businesses

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>IN PERSON</th>
<th>ONLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CREDIT</td>
<td>51%</td>
<td>55%</td>
</tr>
<tr>
<td>DEBIT</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>CASH</td>
<td>56%</td>
<td>51%</td>
</tr>
<tr>
<td>THIRD PARTY PAYMENT SERVICE</td>
<td>N/A</td>
<td>27%</td>
</tr>
<tr>
<td>DIGITAL WALLETS</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>CHECK</td>
<td>6%</td>
<td>2%</td>
</tr>
</tbody>
</table>

SIGNIFICANT CHANGES FROM 2017 TO 2019:

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>IN PERSON</th>
<th>ONLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital wallets</td>
<td>2x</td>
<td></td>
</tr>
<tr>
<td>Credit cards</td>
<td>+11%</td>
<td></td>
</tr>
<tr>
<td>Debit cards</td>
<td>-9%</td>
<td></td>
</tr>
<tr>
<td>3rd party payments</td>
<td>2.5x</td>
<td></td>
</tr>
<tr>
<td>Debit cards</td>
<td>-11%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Survey respondents were asked “How do you usually pay for purchases when shopping at small businesses? Select all that apply.” By design, the question results in percentages that do not add up to 100%.

Source: A commissioned study conducted by Forrester Consulting on behalf of Bank of America Merchant Services, 2017-2019.
Small businesses broaden their payment options

Small businesses are expanding their acceptance capabilities more than ever. 90 percent of small businesses report accepting credit cards, and 84 percent accept debit. It’s an increase that is welcome among consumers, who prefer to use the payment method that is most convenient for them.

How small businesses accept payment

Credit and debit card acceptance is at an all-time high, up from 87 percent and 76 percent in 2017, respectively.

Cash and check remain viable payment methods at a majority of small businesses.

INDUSTRY FOCUS

Digital wallet acceptance by industry

- **Retail & Wholesale**: 69%
- **Veterinarians**: 14%
- **Restaurant**: 41%
- **Dentists**: 10%
- **Service & Repair**: 38%

What happens when consumers can’t pay their preferred way?

Small businesses may lose the sale or suffer decreased customer satisfaction.

- 34% said “I would be annoyed but use another method”
- 17% said “I would not make the purchase”

Source: A commissioned study conducted by Forrester Consulting on behalf of Bank of America Merchant Services, 2017-2019.
Meet the challengers

Cash, credit and debit are still the most popular payment methods among consumers, but a few up-and-comers offer some interesting opportunities for small businesses.

**GIFT CARDS**
Small businesses offer gift cards to increase reach and loyalty

According to small businesses, gift cards help them:

- Attract new customers | 69%
- Increase sales during the holidays | 68%
- Increase customer loyalty | 59%
- Increase sales overall | 55%

**DIGITAL WALLETS**
Small businesses turn to digital wallets to improve checkout experience and speed

According to small businesses, digital wallets help them:

- Make checkout convenient | 65%
- Let customers use their mobile devices | 53%
- Speed up checkout | 43%
- Provide a sense of security | 42%

**INDUSTRY FOCUS**
Should small businesses offer gift cards?

Sit-down restaurants and retail stores are more likely to offer them, and 36 percent of consumers say they are likely to purchase gift cards at small businesses.

**BOTTOM LINE:**
Small businesses looking for a tool to reach new customers and bring in extra sales should consider offering and accepting gift cards.

**INDUSTRY FOCUS**
Should small businesses consider accepting digital wallets?

Retail leads adoption across industries, with 69 percent of respondents accepting digital wallets. It’s also most popular among consumers 44 and younger, with almost 20 percent using it in-person.

**BOTTOM LINE:**
Small businesses should consider accepting digital wallets to attract younger consumers, especially when convenience and service are important.
Data breaches are more expensive and threaten consumer trust

**THE GOOD**

The rate of data breaches hasn’t changed much over two years, and EMV® chip-card acceptance, which helps protect card data and prevent fraud, has reached an all-time high.

- **80%**
  - of small businesses have started accepting EMV® chip cards.
  - *Up from 55% two years ago*

- **21%**
  - of small businesses said they had a data breach within the last 24 months.
  - *Up from 17% two years ago*

**THE BAD**

Consumers are more wary of returning to small businesses that have had a data breach, and costs are rising.

- **41%**
  - of small businesses that suffered a data breach paid more than $50,000 to recover.
  - *Up from 31% two years ago*

- **29%**
  - of customers will never go back to a small business that has had a data breach.
  - *Up from 20% two years ago*

How small businesses are protecting themselves

The top three tactics small businesses have used to improve security and reduce fraud in the past 24 months:

- **57%**  
  - Updated POS equipment

- **44%**  
  - Implemented industry security standards (like PCI compliance)

- **43%**  
  - Trained employees
Small businesses tackle online selling

With 70 percent of small businesses engaging in eCommerce in some way, and over 50 percent having their own website, it’s clear they’re following consumer trends. But consumers hesitate making purchases on small business websites, mainly because of concerns about shipping costs and speed.

70% of small businesses engage in eCommerce through a website, app or third-party marketplace.

51% of small businesses have their own website where consumers can order and make payments.

Top consumer concerns about shopping on small business websites:
- 42% Think shipping costs are too high
- 23% Think shipping takes too long
- 22% Say small businesses don’t have the products they want

<table>
<thead>
<tr>
<th>What functionality do small business websites offer?</th>
<th>How are consumers using small business websites and apps?</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURCHASE</td>
<td>44% have made at least one purchase in the past month</td>
</tr>
<tr>
<td>51% allow online purchase</td>
<td></td>
</tr>
<tr>
<td>PRODUCT RESEARCH</td>
<td>29% research products or services</td>
</tr>
<tr>
<td>48% offer product information</td>
<td></td>
</tr>
<tr>
<td>BUSINESS INFORMATION</td>
<td>24% look up key business information</td>
</tr>
<tr>
<td>45% provide key business information (hours, contact info, location)</td>
<td></td>
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</tbody>
</table>
Shopping behavior is transforming faster than small businesses think

Consumers are increasingly turning to the web and online reviews to inform their purchases. The trends are especially noticeable with consumers younger than 30 when it comes to leaving negative reviews and using their mobile devices while shopping.

Yet a significant number of small business owners don’t realize the impact of these changes.

The difference between consumer behavior and small business perception

**USING MOBILE DEVICES WHILE SHOPPING**

44% of consumers younger than 30 use their mobile device while shopping more often today than five years ago. **BUT**

Only 25% of small businesses think consumers are more likely to walk away from a purchase after comparing prices on their mobile device.

**READING ONLINE REVIEWS**

65% of consumers use online reviews to inform their purchase decisions. **BUT**

Only 39% of small businesses think review sites give consumers more influence in the market.

What’s the power of online reviews?

**Consumers leave them after bad experiences**

30% of consumers younger than 30 only leave reviews after a bad experience. **They impact shopping behavior**

50% of consumers say they won’t shop at a small business if it has negative online reviews.
POS systems go beyond payments

The rise of smart point-of-sale (POS) systems and integrated management technology is changing the game for small businesses. The enhanced technology is helping to relieve major pain points, namely sales reporting and inventory management.

Top 3 desired functions of POS systems other than taking payments

Even across restaurant, retail and service-based small businesses, which have unique needs and problem areas, these are all the most desired functions of POS systems.

- **42%** want sales reporting
- **40%** want to manage and track inventory
- **32%** want to manage invoicing

**INDUSTRY FOCUS**

Should sit-down restaurants consider pay at the table?

In a tight margin industry where diner experience has such a big impact, it’s worth considering new pay-at-the-table technology, which adds convenience by speeding up the payment process and helps consumers feel more secure because cards never leave their possession.

- **54%** of consumers appreciate being able to pay at the table.
- **28%** say it makes them feel more secure.
- **26%** say they appreciate the speed and convenience.

Source: A commissioned study conducted by Forrester Consulting on behalf of Bank of America Merchant Services, 2017-2019.
Consumers want to be rewarded for their loyalty

Running a loyalty program can be a double-edged sword. Small businesses can build stronger relationships and more consistent sales, but members expect to spend less every time they shop.

SMALL BUSINESSES SEE NOTICEABLE BENEFITS FROM LOYALTY PROGRAMS.
- 64% See improved customer loyalty
- 52% Have stronger relationships with their customers
- 50% See more consistent sales

MEMBERS PREFER TO BE REWARDED CERTAIN WAYS.
- 49% Instant discounts
- 45% Rewards points per purchase or visit
- 44% Exclusive coupons or discounts

How should small businesses manage their loyalty programs?

CONSUMER OPINIONS ARE SPLIT:
- Physical loyalty card: 26%
- Phone numbers: 25%
- No preference: 24%
- Credit/debit cards: 14%
- An app: 10%

A majority of consumers appreciate a good small business loyalty program.

According to respondents, loyalty programs...

Make repeat shopping worth it
- 66% of consumers say they are more likely to shop at small businesses when they are members of their loyalty programs.

Are more attractive with discounts
- 54% of consumers say they are more likely to make a purchase from a small business that has a loyalty program with rewards and discounts than one that does not.
Consolidated financial relationships are on the rise

When small businesses combine their business banking and merchant services relationships with one financial institution, they can gain a variety of benefits — a fact that most small businesses are capitalizing on.

79% of small businesses said an integrated relationship between merchant services and business banking is important or critical.

Top 5 benefits of a consolidated relationship, according to small businesses:

- 51% Faster funding
- 48% Save on overall costs
- 42% Customer service 24/7
- 35% Consultative support
- 26% Special offers

INDUSTRY FOCUS

Retail and service-based businesses are more likely to see the benefit of consolidating their relationships.

70% of service-based small businesses have a consolidated relationship.

68% of retail businesses have a consolidated relationship.
Are you ready to make a change?

Call your Bank of America Merchant Services business consultant or **833.713.2151** or visit [merch.bankofamerica.com/small-business](merch.bankofamerica.com/small-business) to see how we can help you grow your business.