

Small Business Payments Spotlight

Fall 2017

With so much at stake, small businesses must adapt to changes in the way customers shop and pay

Running a successful small business takes determination, stamina and agility.

From wrangling every aspect of daily operations to cultivating a loyal customer base to fending off the competition, there's a lot to manage.

Complicating the equation today are rapidly changing customer behaviors and expectations, particularly when it comes to how they want to shop and pay for goods and services. As technology introduces new capabilities and greater convenience for the individual, small businesses must keep pace—just as larger competitors are doing.

In this, Bank of America Merchant Services' inaugural Small Business Payments Spotlight, you'll find intriguing trends that reveal how both small businesses and consumers think about the shopping and payments experience. With a better grasp of the evolving payments landscape today, owners and operators can get a head start on how to position their business for success tomorrow.

Key Findings

The study underpinning Bank of America Merchant Services' Small Business Payments Spotlight uncovered a number of informative findings. Here are the three most important ones to know.

Small businesses need to adjust quickly to evolving payments trends or risk getting left behind.

Cards and cash still reign supreme for making purchases, but consumers are growing more comfortable with new technologies that enable quick, convenient and secure transactions with businesses at the point of sale and online—not to mention with their peers. Merchants are getting on board, too—more than a third of them said they now accept digital payments.

What's happening to cash? Nearly half of consumers carry less of it now than they did five years ago. Further, most small businesses expect cash to become increasingly irrelevant over the next five years as digital payments grow in popularity.

What's clear is that customers are leading the way by trying out and adopting new ways to shop and pay. The question becomes: What will happen to businesses that don't pay close attention to these trends?

To grow and thrive, small businesses need to better meet customers' expectations online.

The lack of a confidence-inspiring online presence is hurting many small businesses' ability to keep existing customers and win new ones. For today's connected consumer, it takes mere seconds on a mobile device or computer to access a wealth of information about goods and services, including where to quickly find them.

Bank of America Merchant Services, a global leader in payments, eCommerce and security, commissioned Forrester Consulting, one of the most influential research and advisory firms in the world, to conduct a study of payments-focused attitudes and behaviors among U.S. small business owners and consumers.

The Bank of America Merchant Services Small Business Payments Spotlight you're reading presents the most notable findings from the study.

METHODOLOGY

In the fall of 2017, on Bank of America Merchant Services' behalf, Forrester conducted two online surveys of 522 U.S. small businesses and 508 consumers who purchase goods and services from small businesses.¹

Survey participants responded to questions about point-of-sale and digital payments, eCommerce, security and the future of cash.

To be considered for participation, small businesses 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.

¹Source: A commissioned study conducted by Forrester Consulting on behalf of Bank of America Merchant Services, September, 2017.

Yet only 44 percent of the small businesses surveyed maintain an eCommerce site. Those that do often fail to offer visitors the easy-to-use interface and helpful features—like free and fast shipping or clearly posting their return policy—to which they are growing increasingly accustomed.

Some small businesses also seem to overlook the potential for an eCommerce presence to increase exposure and sales beyond an immediate locale. Since the bar to launch an eCommerce site that securely accepts payments has never been lower, it's time for more small businesses to get in the game.

Protecting customers' data is the essential foundation to building loyalty.

In our study, 20 percent of consumers who had their bank or personal information stolen indicated they would not shop at a small business that had experienced a data breach.

There are things merchants can do to shore up consumer confidence as it relates to the security of personal information, including payment data. These include merchants adopting EMV® chip card technology at the point of sale, complying with all payment card industry data standards, ensuring employees consistently follow proper protocols during transactions, and maintaining a safe and credible-looking web presence.

From the business owner's perspective, safeguarding customer information should be Job No.1. More than 30 percent of small businesses that experienced a breach said it cost in excess of \$50,000 to resolve the breach and rebuild customers' trust. Few small business owners can easily withstand that financial hit—and the accompanying loss of business from wary customers.

As the trusted payments provider for hundreds of thousands of small businesses across the U.S., Bank of America Merchant Services is pleased to share with you valuable insights in this Small Business Payments Spotlight. Read on to explore what hundreds of other small businesses and consumers have to say.

For more information, call your Bank of America Merchant Services business consultant or 888.296.3708.

JOIN THE CONVERSATION

Bank of America Merchant Services invites you to share your perspectives on the company's LinkedIn channel, where you'll find frequent posts about key insights from the Small Business Payments Spotlight.

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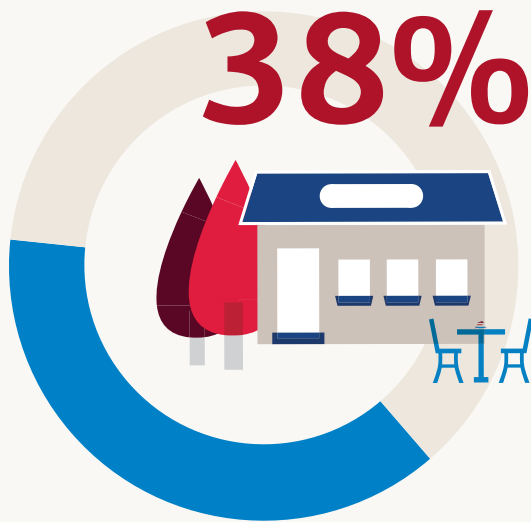
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Before customers can be loyal, they need to feel secure

Consumer behaviors are changing. Are small businesses keeping up?

Maintaining the status quo often means conceding market share to the competition and risking customers' long-term loyalty. Businesses that stay on top of key trends and take action accordingly are at a distinct advantage.



Percentage of small businesses that have not changed the types of payments they accept in the past five years even as consumers adopt new ways to pay.

28% of small businesses said they have started accepting customer payments made via digital wallets.

Just 9% of small businesses have their own branded app that accepts payments or allows money to be loaded into a prepaid account.

Shoppers are more savvy than they were five years ago.

54% of small businesses believe customers are more likely to have researched a product or service before they buy it.



44% of consumers are more likely to research a product or service online.

45% of small businesses feel customers have more say in the marketplace thanks to review sites.



27% of small businesses believe customers are more likely to walk away from a purchase because of mobile price checking.

44% of small businesses believe customers have a lot more power now to demand a buying experience that meets their needs.



22% of consumers reported using their mobile device for shopping.

The future of cash

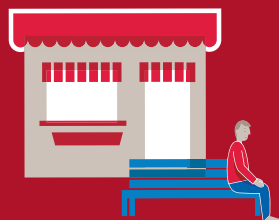
Consumers increasingly prefer to pay for purchases with cards, especially online. Digital payments are growing in popularity, as well.



48% of consumers carry less cash than they did five years ago.



44% of small businesses expect cash will become more irrelevant over the next five years.



Only 9% of consumers would walk away from a purchase if their only option was to pay with cash.

Those older than 65 prefer to pay with credit cards. 15% of them would walk away from a purchase if cash was the only form of payment a business accepted.

Ways to pay: Here's how small businesses accept payment for goods and services.

87% accept credit cards

86% accept cash

76% accept debit or ATM cards

64% accept checks

40% accept prepaid cards

36% accept digital payments

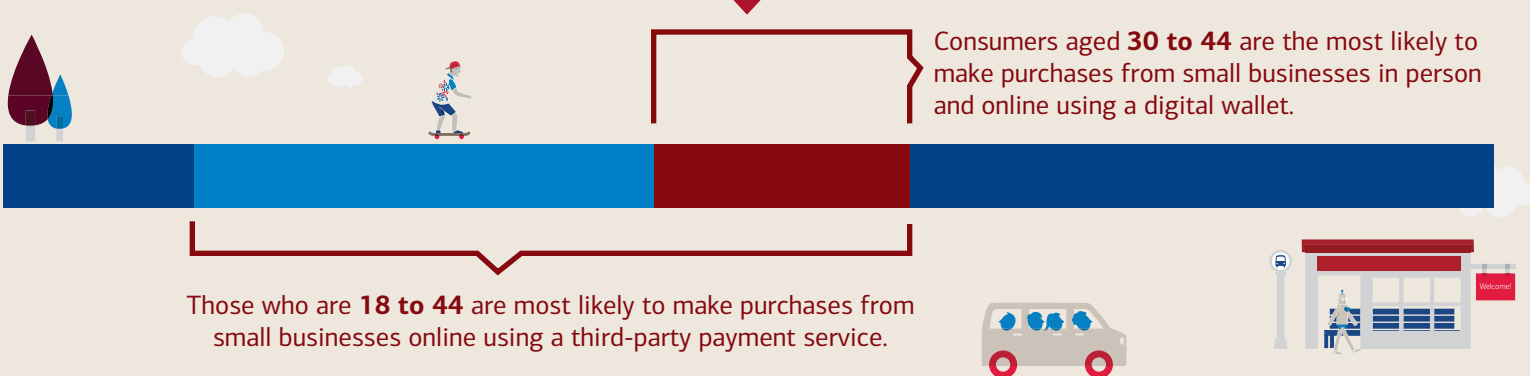
Cash is the preferred in-store payment method for those aged 18 to 29.



69% of restaurants accept prepaid cards, far more than any other industry.

The rise of mobile shopping and digital wallets

44% of small businesses have started accepting digital payments to deliver a better experience for customers and meet their evolving expectations.



Why small businesses accept digital payments:[†]

78%

To provide customers with greater convenience.

49%

To deliver a better experience for customers.

42%

Because customers always have a mobile device with them.

40%

To help process more transactions per hour.

56% of service and repair small businesses listed **convenience and speed** as their top reasons for **accepting digital payments**. Doing so also cuts down on potential losses stemming from unpaid invoices.[‡]

Forrester predicts mobile payments will nearly triple in the next five years. Fueling this growth: **increasing consumer awareness** and a growing desire among merchants to learn what **mobile payments** can do for their businesses.[§]


How small businesses are doing more than ever with their point-of-sale systems

Today's point-of-sale (POS) systems can do a lot more than just process customers' payments. They can help manage inventory, track employees' schedules, analyze sales performance, run customer loyalty programs, and handle many other functions.


Here's how participating merchants reported configuring their POS systems:




Here are some key payment trends by segment of the small business economy:




71%
of retailers accept payments via EMV* chip cards.



Service and repair businesses set the highest minimums for card payments to reduce the processing fees they pay, improve speed and prevent fraudulent cards from being tested at low dollar amounts—a common practice by criminals.



67%
of restaurants process card payments through a tablet or computer-based POS system with an integrated card reader, far more than any other industry.



Restaurants accept the widest variety of payment types but are least likely to take checks.

Small businesses are failing to meet customers' expectations online

53% of consumers are shopping online more than ever. Yet only 44% of small businesses operate an eCommerce website.

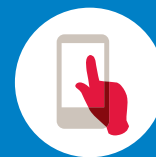
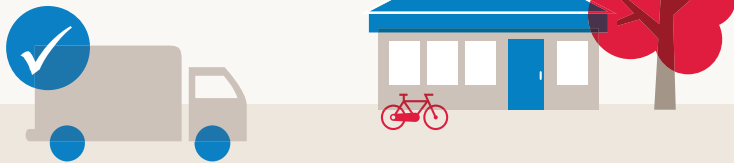


The percentage of consumers surveyed reported making more than a quarter of their household purchases **from small business eCommerce sites.**

How can small businesses earn a bigger piece of the pie?

Among the biggest influencers on shoppers' behavior?

Free and fast shipping.



One way to boost sales is to find an eCommerce platform that offers customers an **easy-to-use interface** and lets them use the **payment method of their choice.**

Consumers surveyed indicated the following obstacles stood in the way of them making more purchases via small business eCommerce channels.

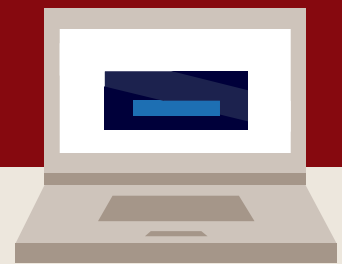
32% - Shipping costs are too high.

15% - There's no clear return policy.

18% - Shipping takes too long.

28% - The merchant charges for shipping.

Only **14% of consumers** report they never hesitate to shop online with small businesses.



54% of those 18 to 29 years old make more than 6% of their household purchases from small business eCommerce sites—the most of any age group.



Keys to a successful small business eCommerce site

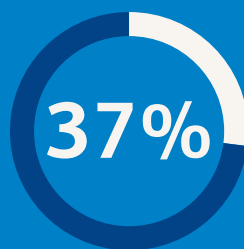
Maintaining an effective, secure eCommerce site can help you grow sales, build customer loyalty and better fend off competition.



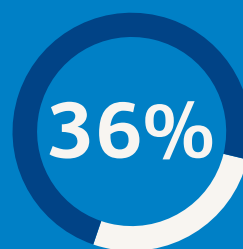
eCommerce solutions come with many features and add-ons.

What's most important to you?

These are the features small business operators value most in an eCommerce platform:



24/7 support



Compatibility with point-of-sale systems



Secure shopping cart for customers

Small businesses reported that their eCommerce site was built to let their visitors:*

Purchase products or services **66%**

Search for products or services **66%**

Find product information **59%**

Connect with the business via social media **56%**

Find basic but key information about the business **54%**

Read reviews by other customers **53%**

Read customer testimonials **44%**

Use a mobile-friendly site design **44%**

Read the business' blog **32%**

Data breaches prove costly for small businesses

Small businesses that suffer a data breach face high unexpected costs to remedy the issue, potentially lower sales and shaken customer confidence.



Can you afford to lose **one-fifth of your customers** and pay more than **\$50,000** in fees following a data breach?



20% of consumers who had their bank or personal information stolen said that they would not shop at a small business that experienced a data breach.*

Potential loss scenario

| | |
|---|---------------|
| Annual revenue | \$400k |
| 20% of annual revenue | \$80k |
| Out-of-pocket expenses to remedy the breach | \$50k |
| Total potential loss | \$130k |

31% of small businesses that experienced a customer data breach in the last two years **spent over \$50,000** to resolve the breach, including fees paid to professional services firms, legal counsel, and public relations advisers.*

While data breaches can harm organizations of all sizes, small businesses are particularly vulnerable.



44%

of small businesses reported being the victim of a data breach.†



Nearly **40%**

of consumers have had their credit or debit card, bank account, or personal information stolen.



40%

of retail and wholesale small businesses experienced a customer data breach in the last two years.



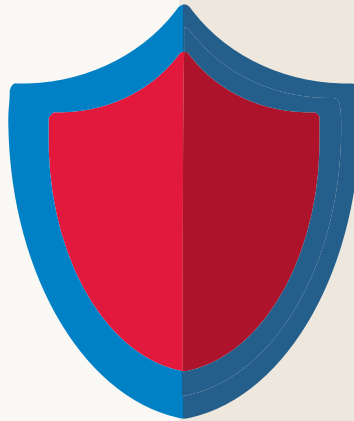
Consumers aged 18 to 29 and over 65

are the most likely to never again trust a small business that experienced a data breach.*

Signs small businesses can do more to safeguard their customer data

In the never-ending battle against criminals, there's no choice but to stay prepared and vigilant.

45% of small businesses reported updating their point-of-sale equipment over the last two years, including adding EMV* chip card payment acceptance.



36% of small businesses invested in training and coaching to help employees gather complete payment details from customers (such as the 3 or 4-digit security code found on credit cards).

Based on study participants' responses, many small businesses are behind the curve on shoring up their defenses against fraudsters. Here are three areas for concern:



33%

of small businesses reported they had purchased security software.



25%

believed they were in compliance with payment card industry data security standards.



16%

stated they haven't done anything yet to protect their data, leaving their businesses and customers vulnerable.

Just as troubling is the lack of emphasis many small businesses are placing on ensuring proper measures are taken to protect customer data. For example:

75%

of small businesses said they do not make conducting regular security audits a critical priority.

62%

do not consider blocking unsecure internet sites at their business a critical priority.

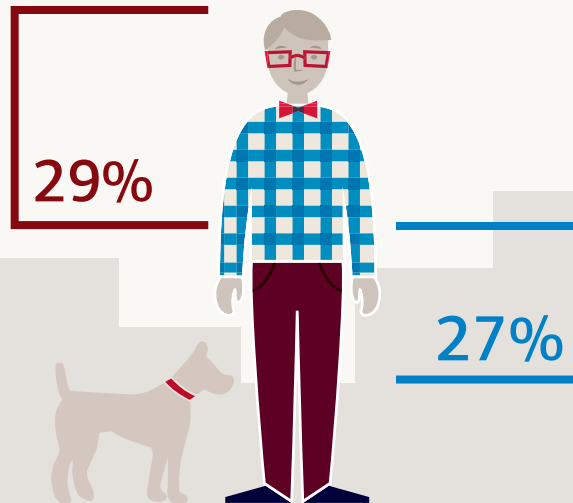
60%

of small businesses do not consider requiring their employees to follow strict data security policies a critical priority.

What small businesses are doing to shore up their payments data defenses

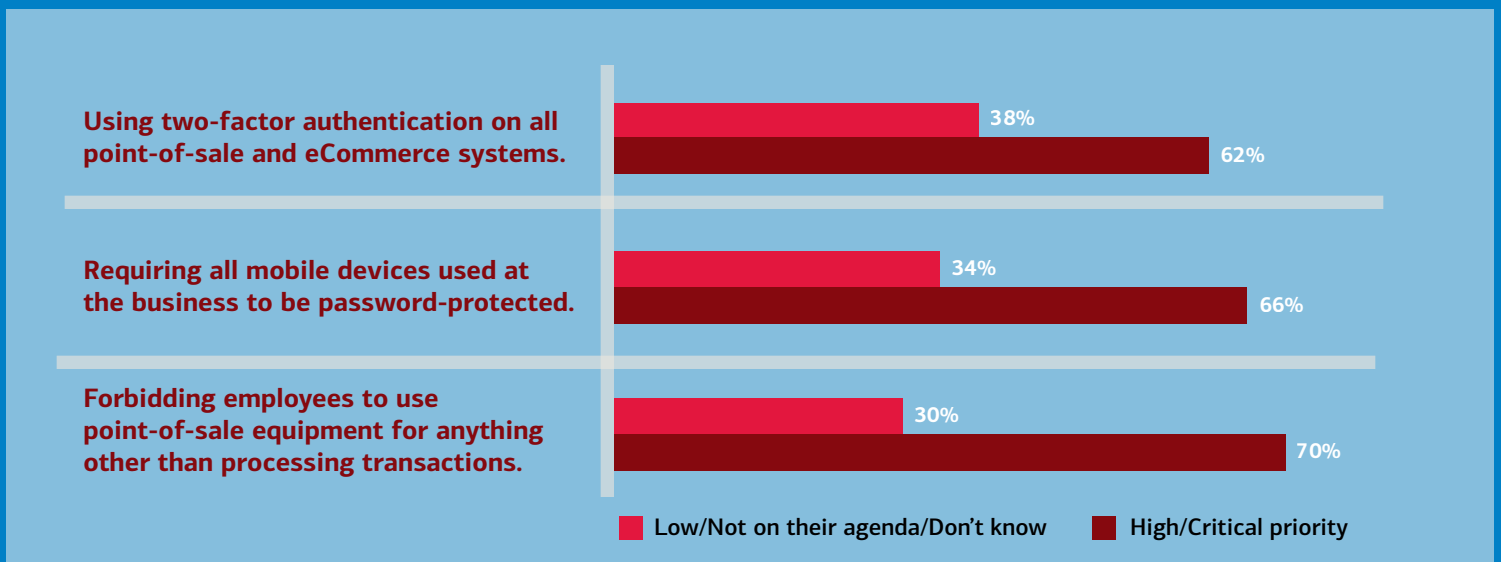
With time and attention in scarce supply, business owners and managers need all the help they can get, especially from their payments provider.

Nearly a third of small business owners said they need more education about reducing security and fraud risks...



...while more than a quarter want guidance about new payments equipment and software that could help them protect their data.

Small business operators know they need to do more to safeguard their payments environment. Here's how they're prioritizing key efforts:



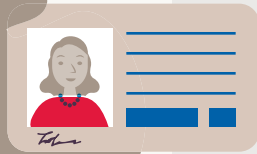
Before customers can be loyal, they need to feel secure

There are steps every small business can take to safeguard customers' payments data and preserve their trust and loyalty along the way.

Consumers feel more secure making card payments when small businesses:

31%

Ask for identification or compare the signature on a card to the receipt.



36%

Use a chip card reader at checkout.



Acceptance of EMV* chip cards, which make it harder for thieves to steal customers' payments data at the point of sale, is rising.



Customers feel most secure using a credit or debit card to pay for merchandise or a service at a small business when:

21%

The merchant's website appears secure.

19%

They know the merchant personally.

15%

The merchant has a newer-looking point-of-sale system at checkout.

55% of small businesses surveyed accept EMV chip-enabled credit and debit cards.

71% of retail and wholesale small businesses accept them.

57% of small business restaurants accept them.

54% of service and repair small businesses accept them.

42% of professional and consumer services small businesses accept them.



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