

Digital Transformation of SMBs:

The Future of Commerce

Presented By **VISA**



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A woman with long dark hair, wearing a red and black plaid shirt and blue jeans, is styling a client's hair in a salon. The client is seated in a white salon chair, wearing a pink towel. The background shows a modern salon interior with large windows and other styling stations.

Introduction

The insights provided in this guide are for small and medium size businesses (SMBs) in the United States, with a focus on helping businesses grow and improve the customer experience by leveraging technology and digital commerce. We hope you enjoy reading it!

Executive Summary

Fueled by smart technologies, mobile devices, and 24/7 connectivity, the way consumers browse, shop, and pay is moving toward a digital means.

In 2018, nearly 280 million people, or 85% of the U.S. population, are expected to go online at least once a month.¹ Of those, 81% will browse, research or compare products digitally and 70% will use the internet to actually make a purchase.² As a result, cross-channel buying is becoming increasingly common – eMarketer estimates that 25% of purchases started online are completed in-store, and 25% of purchases started in-store are completed online.³ Given these data points, it's not surprising to see that in 2017, payments made using cards overtook cash globally: \$23.3 trillion versus \$20.4 trillion.⁴

In response to these evolving consumer practices, commerce itself is undergoing a profound transformation, with businesses looking at digital solutions to improve sales, acquire new customers, and reduce costs. This presents particular opportunities for SMBs, the 29.6 million firms which make up the vast



majority of American enterprise.⁵ According to a new 2018 Maru/Matchbox survey,⁶ 46% of SMBs sell their products and services online, and of the SMBs who do, they estimate that about 15% of their sales come from the online channels.

As SMBs are the focus of this research, it's worth taking a moment to understand the size and scale they represent. SMBs are an undisputed engine of the nation's economy. Per the SBA's 2017 Small Business Profile, they make up 99.9% of all companies in the United States and employ 58 million people, or 48% of America's workers.⁷ They are a vital force of international trade, making up 98% of all U.S. exporters. And, SMB owners are diverse: 8 million of them are minorities, and 10 million are women, with both groups growing.

¹ eMarketer, *US Digital Users*, eMarketer's Estimates for 2018, March 2018.

² eMarketer, *Digital Shoppers & Buyers by Country*, February 2018.

³ eMarketer, *ForeSee "Customer Experience 2017,"* April 2017.

⁴ Euromonitor International, *Consumer Finance 2017 Edition*.

⁵ *Small Business Profile 2017*, US SBA Office of Advocacy. SBA defines a "small business" as a firm having fewer than 500 employees. Only 18,500 firms in the US employ more than 500 people, less than 0.1% of all firms.

⁶ Throughout this report, data is drawn from the Maru/Matchbox 2018 survey of SMBs and consumers unless otherwise noted. Please see Methodology section for details.

⁷ *Small Business Profile 2017*, US SBA Office of Advocacy.

For all these reasons, and many others enumerated in the pages that follow, this guide focuses on ways that digital commerce can make life better for SMBs.

To bring these ideas to life, Visa partnered with a consortium of trade associations, technology providers, banks, and researchers to answer the question:

Do SMBs need to transform digitally to prosper in this environment, and if so, how can they start? This guide includes findings from a 2018 Maru/Matchbox survey of SMB decision-makers across four industries, food and dining, retail, grocery, and services, and consumers asking them about their experience and expectations with digital channels and payments.⁸ What we found was a gap between what consumers want and what some SMBs are doing. The gap suggests that there are opportunities for SMBs to utilize consumer-sought, digital ways to capture revenue, stay in front of customers, and save time and expenses on the daily

tasks necessary to run businesses. To help close these gaps, *Digital Transformation of SMBs* provides real-life testimonials and a 'how-to' primer for those interested in next steps. Key findings are interspersed alongside the most important survey learnings, which are:

Enabling digital consumer discovery and marketing are critically important in today's environment.

In order to win prospective and existing customers, it's important for SMBs to have a digital presence during the discovery and evaluation stages of the customer shopping journey.

- Over 80% of consumers surveyed say they are motivated to shop at a business if they have an easy to use website.
- 52% of consumers surveyed search online and/or check the business website before visiting a new business.
- Over 60% prefer to be contacted through a digital channel, such as e-mail, website banners, or business's website.

These behaviors and preferences highlight an opportunity, as currently less than half of SMBs conduct business online.



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⁸ Digital channels defined as online presence through business or third-party website and/or mobile app. Digital payments defined as payments made through cards or mobile phone. See Methodology section for details.

Traditional Customer Journey



Consumers are looking for experiences that enhance and simplify their lives.

When shopping or considering where to shop, customer service considerations are motivating factors for consumers we surveyed:

- Over 80% of consumers surveyed mention digital related benefits are motivating factors to shop at a business, such as the ability to order ahead, participate in loyalty programs, and receive fast responses back to inquiries.
- Millennials are most inclined to take advantage of digital services such as shipping or delivery incentives, self-serve kiosks, and Wi-Fi at businesses.

Current Customer Journey



This presents an opportunity to increase customer engagement as roughly half (55%) of the SMBs surveyed agree that customer experiences such as innovative new ordering or payment services will have a positive impact on their business's bottom line.

Digital payments may positively impact SMB's bottom line.

Given consumers' preference for digital channels, it's not surprising to see that 78% of consumers ranked a digital payment method, such as a card or being able to pay with their phone, as their #1 preferred payment option. Further, there could be expense and revenue benefits to accepting digital payments.⁹

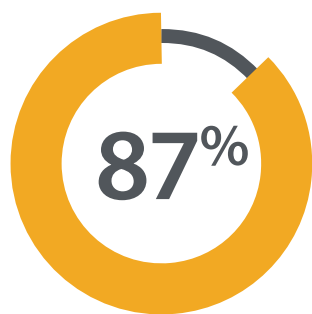
⁹Includes card, such as debit or credit, and mobile payments. See Methodology for details.

Based on the 2018 Maru/Matchbox SMB survey data:

- The average cost of processing digital payments, inclusive of direct expenses and labor costs, is 57% less than that of non-digital payments.¹⁰
- 65% of SMBs agree that customers spend more when they use cards versus cash.
- On average, SMBs reported an 8% increase in revenue after accepting digital payments.¹¹

Only 27% of SMBs reported that they prefer to accept digital payments from consumers. However, given the potential financial benefits, showcasing and enabling digital acceptance may help increase revenue and reduce costs.

It's important to mention that in addition to consumers expressing preference for digital commerce, 87% also think it's important to support local SMBs – providing a great opportunity for SMBs to increase engagement with consumers.



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¹⁰ Digital payments defined as wire transfers, cards (such as credit, debit, prepaid), mobile payments and peer-to-peer payments. Non-digital payments defined as cash, check and money orders. See Methodology for details.

¹¹ Based on survey participants who reported either specific increase or no impact in sales volume after accepting digital payments. No participant reported decrease in sales volume. See Methodology for details.



CASE STUDY: Little Green Cyclo

Little Green Cyclo – More Customers, More Revenue, More Free Time for Owners

Little Green Cyclo has been bringing fresh, authentic Vietnamese street food to the Bay Area for eight years. The founders — Chef Quynh Nguyen, Monica Wong and Susie Pham — serve up a menu that showcases the great flavors of Vietnam using local, free range, sustainable, organic and seasonal ingredients.

The business started as one cash-only food truck. Not only have they added two trucks, they have also expanded to include a commercial kitchen, distributing product to 16 Philz coffee shops and local grocers. Little Green Cyclo also stocks smart vending machines that sell fresh packaged goods at hotels.

Accepting digital payments was a big part of their growth, say the owners. “By accepting only cash, we were turning away many customers every day,” says Monica.

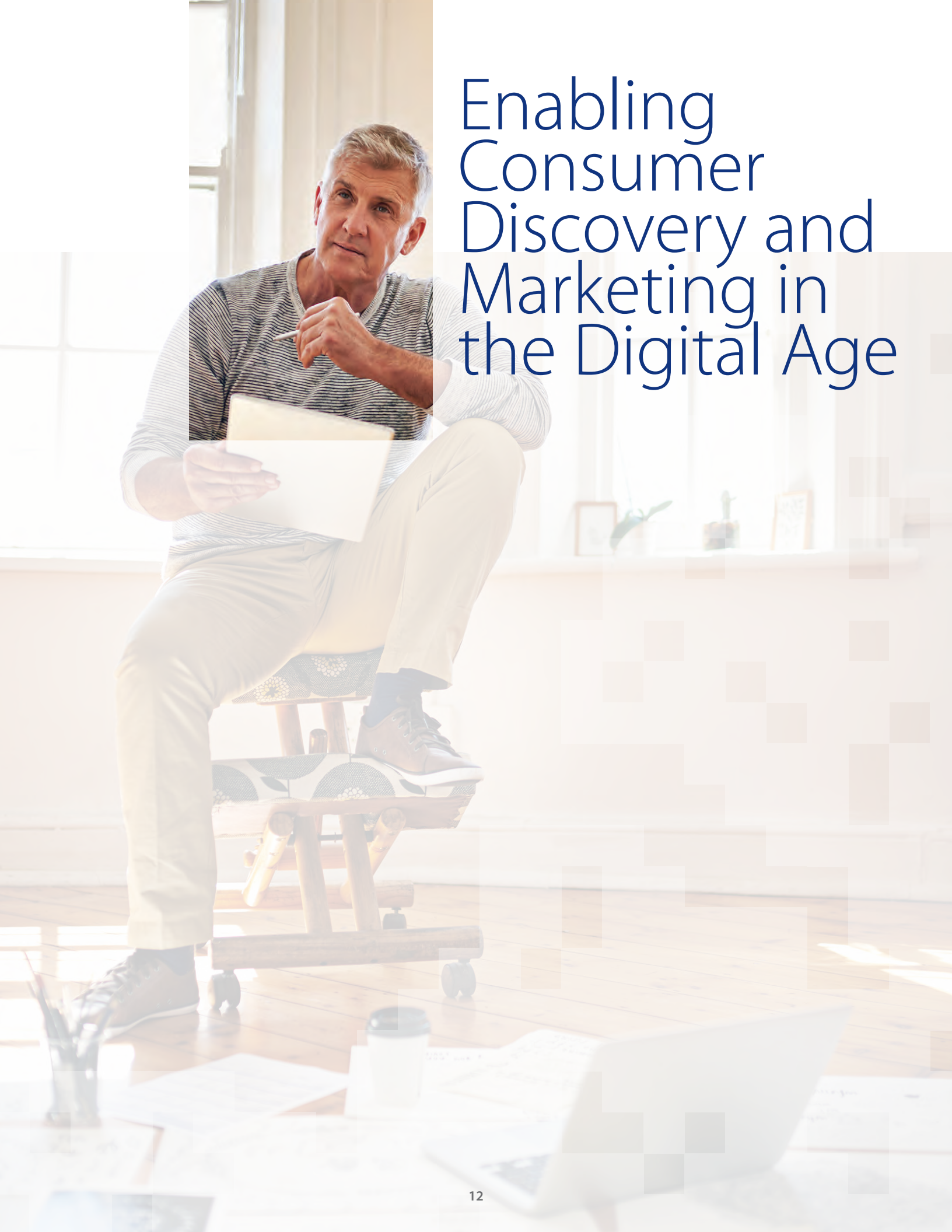


Customers also tipped more on cards, they discovered, especially on big-ticket orders. “Our customers like the easy tipping feature that displays “10, 15, or 20% tip” options after they swipe. Before, they would just leave one or two dollars in the tip box,” says Monica.

Susie mentions how employees noticed that digital payments helped to move people through the busy lunch lines faster and reduced customer complaints. Accepting digital payments has also made daily bookkeeping easier as managers can see the sales data in seconds, pull accounting records, and check cash flow, freeing up two to three hours a week, or over a hundred hours a year.

Monica Wong says, “Adding digital payments contributed significantly to our growth. We wouldn’t be where we are today without digital payments.”

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A man with grey hair, wearing a striped sweater and khaki pants, sits on a wooden stool in a bright, modern room. He holds a pen in his right hand and a notepad in his left, looking thoughtfully towards the camera. In the foreground, a laptop, papers, and a coffee cup are scattered on the wooden floor. The background features a large window and a shelf with small plants and framed pictures.

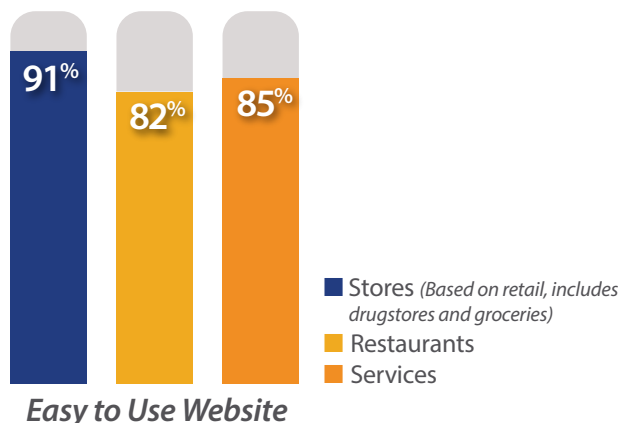
Enabling Consumer Discovery and Marketing in the Digital Age

Consumer discovery and marketing play a key role in attracting consumers. Research shows that consumers prefer using digital channels such as a business website, social media, and e-mail when determining where to shop.

Websites

While close to 90% of consumers surveyed think it's important to support SMBs, they are also heavily reliant on digital channels when considering where to dine and shop. More than half (52%) of survey participants often search online and/or check a new business's website before visiting in person. Millennials are most likely to do so (68%), followed by Gen X (61%) and Baby Boomers (40%). In fact, over 80% of consumers surveyed say they are motivated to consider or shop with a business if they have an easy to use website.

What motivates you to shop with a certain business?



Source: Visa Digital Transformation Research, 2018 Maru/Matchbox survey.



Consumers are increasingly making purchases online. Per the 2018 Maru/Matchbox survey, 38% of consumers' retail purchases are currently made online. This number is expected to grow as 61% of consumers surveyed are planning to increase their online purchases in the next 5 years. On the other hand, 78% of consumers surveyed are planning to decrease or keep their in-store purchases the same.

These findings present an opportunity for SMBs to increase their online presence. Currently, 46% of SMBs surveyed have an online presence, such as through a business website or online marketplace. Services industries lag behind others, with only about a third using digital channels, compared to about one-half for food and dining, retail, and grocery. SMBs estimated that 15% of sales come from these channels, with the higher proportion of sales coming from medium size firms (27%) versus 11% for micro and 21% for small.¹²

¹² Annual sale criteria by SMB size – Micro <\$500K, Small \$500K-\$5MM, Medium \$5MM-\$10MM. See Methodology for details.

How to: Create a website

The following are key steps to consider when creating your business website:

Create and register a domain name

- Set up your business online by getting a website address, also called a domain name or URL. Domain names should be easy to say, spell, and remember. If your first choice of domain name is already taken, choose another that's different enough to avoid any confusion with similar businesses.
- There are many domain registration websites that can help you get you started.

Select a host and platform

- A "host" connects your website to the wider internet, sets you up on a server, and offers services like e-mail management. Important things to look for are reliability (your host doesn't crash) and flexibility (you can make changes to your website easily and quickly).
- Most hosting providers offer numerous service plans depending on the size of your website and the amount of traffic your website is likely to receive. If considering free Web hosting services, do note that these sites typically deliver advertising like banners and pop-ups on your website.
- Selecting the right "platform" is important if you're taking the "DIY" approach. A platform is a tool that helps you design and build your website, offering templates and tips on the ways to craft the look and feel of your website.

► PRO TIP: Some hosting companies will offer you a deal if you register a domain name and host with their services. With this option, do note that if you decide to change your hosting company later on, you may have to pull down your domain name and could encounter unexpected hurdles.

Build your website

- When people visit your website, you want them to instantly understand your business, easily navigate the site, find pricing, know how to buy and ask questions. Be sure that your website has a clear navigation (search) bar and a call to action button, like "buy now," "make an appointment/reservation," or "contact us."
- Put yourself in the shoes of your customer and think about what else they'd like to see on your website. When developing content, create copy that is not only catchy but also SEO (search engine optimization) friendly. See the [Promote Your Website](#) section for more details.
- Business websites usually include the following pages: Homepage, Products/services and Online Ordering, About Us, Contact information. Other considerations include cross-promoting your social media or review sites, along with business policies such as any terms or conditions you may have.
- Consider making your website mobile-friendly. In October 2016, mobile internet use passed desktop internet use for the first time ever.¹³

► PRO TIP: Does your website have a blog section? Within your field, you have unique knowledge that your customers may lack. By sharing knowledge, you can attract traffic from people who are seeking information, strengthen your brand and establish yourself as an expert within your field.¹⁴

Accept online payments

- Please see [Set Up Digital Payment Acceptance](#) section for more details.

¹³ NFIB, "How to Make It Easier for Customers to Find Your Business," February 9, 2017.

¹⁴ Authorize.Net, "Keep Customers Coming Back: Five Tips to Increase Customer Retention," March 7, 2018.

CASE STUDY: Silloway Maple

Silloway Maple – E-Commerce Creates National Reach



Bette Lambert and her son Paul manage Silloway Maple, a family-run business that makes 100% pure Vermont maple syrup. Silloway started in the 1940s as a side business to the family dairy farm. Then in the

1970s, Silloway invested in new sap tubing technology, and now sugaring is a full-time, full-scale operation. The Lamberts have grown it from 350 gallons of syrup a year to more than 3,000 gallons.

To grow the business, Bette set up www.sillowaymaple.com so she could advertise and sell Silloway Maple to the entire country. She developed the web content herself, and worked with a web designer to get her website up and running. She also signed up with Authorize.Net so she could take payments online, over the phone, and in the store.



“

I’m not as tech savvy as some, but the people at Authorize.Net have been helpful and patient with my questions. I can take payments online or over the phone, track down orders, and give refunds whenever needed. It’s great being able to take orders outside of our Vermont community so we can share our 100% maple syrup across the country.

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According to Bette, the best part about the Silloway Maple’s website has been the exposure and credibility it’s brought the company. She stays in touch with her customers through a digital newsletter, and has received calls from CBS and CNN, who did stories on her success.

How to: Promote Your Website

Once you've built your website, hosted it, and are accepting payments, consider how to best promote your website and bring customers to your store:

- **Search Engine Optimization (SEO)** is used to describe the marketing technique of fine-tuning a website so that customers looking for businesses like yours can quickly find you on search engines.
 - A free technique you can perform on your website is modifying the content and structure of a website's text to match likely searched keywords. Remember that search engines index and rank websites according to your content, and the number of clicks your website gets.
 - Search engines can look for words that not only match keywords but also match your website content – so your website ranking may be disadvantaged if things don't match up. For example, if you're selling shoes, it helps to have footwear related links.
 - We recommend checking out [NFIB's Guide to SEO for Your Small Business Website](#) if you would like more details.
- **Pay-Per-Click (PPC)** Advertising refers to advertising on internet search engines.
 - You pay a PPC service to have your ad appear when a chosen keyword or phrase is searched. Typically, you are charged each time a shopper clicks your ad. The ads normally appear under a heading such as "Sponsored Links."
 - While paid advertising can steer more traffic towards your business's website or social channels, it's important to keep in mind that it requires a level of investment and good understanding of your target audience.



- Some search engines also offer options to list your business and optimize the listing to make it easier for customers to find you.
 - One example is "Google My Business," a tool that manages your online presence across Google, including Search and Maps.¹⁵

Track your website's performance to help ensure its reach is as wide as possible:

- Setting KPIs (key performance indicators) are a great way to begin tracking your website's performance, as it requires you to set benchmark goals that you'd like to achieve.
- What KPIs should you set? Some of this will depend on why you decided to develop a website.
- A common KPI that businesses track is conversion rate. This measures the number of people that come to your website and take a desired action such as making a purchase or signing up to receive e-mails.
- You can find a variety of web analytics tools online that allow you to track your website's performance and see how you're doing.

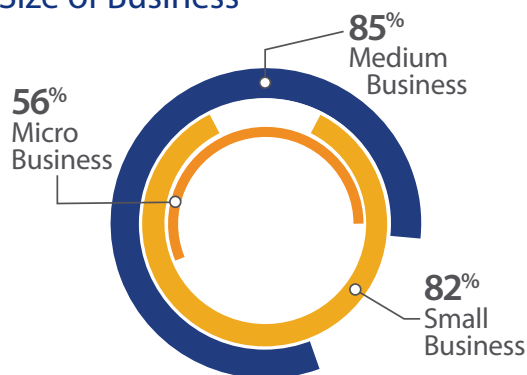
¹⁵ NFIB, "How to Make It Easier for Customers to Find Your Business." February 9, 2017.

Digital Marketing

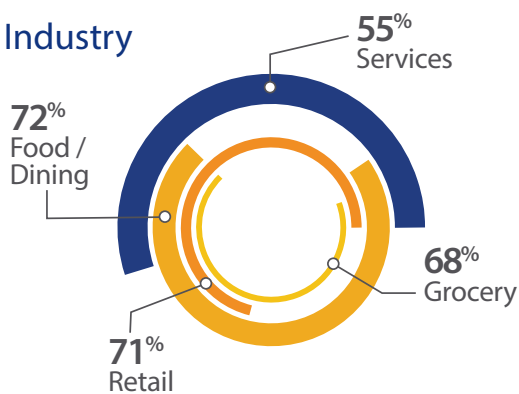
Many SMBs surveyed recognize the importance of marketing as 88% engage in some form of it. However, there is opportunity to further engage with customers through digital channels as a majority of consumers surveyed (63%) prefer to hear from businesses digitally – 46% prefer e-mail, 11% social media and 6% turn to company website – making digital marketing an important channel. Compared to small (82%) and medium (85%) businesses, fewer micro (56%) businesses use digital marketing.

Digital Marketing Usage (%)

By Size of Business



By Industry



Source: Visa Digital Transformation Research, 2018 Maru/Matchbox survey.

In addition to the traditional digital channels, review sites are also a great way to market and cross-promote your business online. 68% of consumers mention online reviews are an important consideration when determining whether to shop at SMBs.

How to: List Your Products in an Online Marketplace

An online marketplace, such as eBay or Etsy, is a third-party e-commerce website that lets sellers post their product for potential new buyers to see and purchase. The following are some considerations to keep in mind:

- There are many marketplaces available to sell products, so picking the right one to sell on is the first step. Think about factors such as the type of product you're offering, who your target audience is, and where they go online to shop.
- Your marketplace listings should showcase all that consumers may need to know about your product, including compelling visuals, information about your brand, and any relevant shipping considerations.
- Some tips for promoting your listings within an online marketplace:
 - Make sure your title and description include relevant key words so that your listing appears in as many searches as possible.
 - Encourage customer reviews. High ratings give your product and brand credibility when a new customer sees your listing. Interact with customers who contact you and ask them to rate and review your product if they've had a great experience.
 - Marketplaces offer sellers ways to advertise so their products appear at the top of customer searches.
 - Online marketplaces seek sellers – their sales and partnerships department can talk you through the process of setting up your business page.

CASE STUDY:

Amy's Gourmet Apples

Amy's Gourmet Apples – The Power of Going Digital

Amy's Gourmet Apples, named in 2005 for making the "BEST OVERALL" Gourmet Caramel Apple by the *Wall Street Journal* and featured on the *Food Network*, has never been shy about experimenting with digital marketing.

Amy's started as a destination stop for locals and tourists. People walking through downtown Cedarburg, Wisconsin couldn't resist the heavenly aroma of caramel that fills the store and spills out into the street. Their award-winning caramel is handmade from premium quality natural ingredients in small batches and cooked in copper kettles, providing a delicious gourmet buttery flavor.

In 2002, owner John Lillegren expanded the business and launched www.AmysGourmetApples.com, making his best-selling apples available in the United States and parts of Canada. Powered by Authorize.Net, the website enables Amy's to quickly and easily take orders online and serve customers outside Cedarburg.



“

Within the first two years of launching the website, Amy's company sales increased 43%!

”

John says, “Within the first two years of launching the website, Amy's company sales increased 43%! The website has also helped Amy's to stay current with their online customers.” “Taking a “test and learn” experimental approach to marketing, Amy's Gourmet Apples talked about what helped grow their business the most.



The first step was figuring out SEO, or Search Engine Optimization. “If search engines can't find your website, you miss out on customers,” said John. So, they decided to put some money towards the website's organic (unpaid) search-ability, which recently increased new user visits by 28%. Doing this led directly to higher sales, as revenue from organic searches increased by 80%.

*Sales growth based on pre- and post-website.

Note: Other results based on 1 month of data, same time period analyzed for pre-SEO and post-SEO enablement.

Then they decided to try social media. Customers can now find Amy's Gourmet Apples on Facebook and TripAdvisor. These sites are used by Amy's to connect with customers, host customer reviews, and direct customers to the business website. Amy's also uses these channels to quickly fix those rare orders that aren't perfect, keeping customers happy.

Amy's has always used text sign-ups and contests to build customer loyalty, but since launching the website, tens of thousands of customers have signed up to receive communications from Amy's. Amy's now has the ability to send targeted offers to encourage these customers to make another purchase or finish the shopping they started online. Amy's noticed that more than 30% of customers who had abandoned their online shopping cart would respond to e-mails offering small incentives to finish checking out, leading to more sales.

"Starting a website and educating myself on all these online tools has been an eye-opening experience. Being able to sell to customers from the United States and parts of Canada has been wonderful!" says John.



Starting a website and educating myself on all these online tools has been an eye-opening experience. Being able to sell to customers from the United States and parts of Canada has been wonderful!

How to: Market Your Business Online

E-mail¹⁶

- Communicating with your customers via e-mail is a great way to engage with your customers. The following are two ways this can be done:
 - **In-store:** Use a system, such as a point of sale (POS) device, which asks customers at check-out time if they want to provide their e-mail address in order to receive promotional communications from your business. To give your customers an eco-friendly experience, you can also utilize e-mail addresses to enable digital receipts to be sent immediately post-purchase.
 - **Online:** Ask customers through a “sign up” or “log in” button on your website and/or during the online checkout process if they want to receive promotional communications.

► **PRO TIP:** *Take e-mail marketing a step further by building a directory that helps you target specific customer groups, so your messages are tailored and effective. For example, you could group your customers according to how often they visit your website.*

- A potential next step is to build a campaign calendar. Consider e-mailing your customers about your loyalty program, special sales and offerings, event invitations, or links to your social media accounts.
- Help keep customers engaged by applying the following practices:
 - Provide relevant, personalized content to incentivize customers to open the e-mails.
 - Keep your e-mail communications organized. This includes having a clear and brief subject line. Develop a call to action, or what you want consumers to do. Be sure to design your e-mail and write the copy accordingly.

- Test your content through e-mail marketing programs. Engagement metrics include number of consumers who opened, clicked on, or unsubscribed from your e-mails.
- Do not send too many e-mails. We recommend sending e-mails no more than few times a month, and only send e-mails when there is compelling content to share.
- Consult with a professional to make sure that your opt-in, use, and unsubscribe practices comply with applicable law.

Social media

- Social media is another tool for defining or refining your brand identity, engaging with customers, and sharing content. It allows for product announcements, promotions, and even conversations with customers to take place without requiring a web development team.
- Start by creating a profile (account) for your business. It is useful to stay active by posting frequently and answering consumer’s questions to help build and keep consumers engaged. Other tips to keep in mind:
 - Create your own cadence of posting, and read your audience. Similar to e-mails, if you post too frequently you may risk becoming a nuisance, but not posting enough won’t help you stay relevant. To begin, try posting weekly and if you’re seeing good engagement, increase the frequency.
 - Craft your brand’s voice – keep it consistent and don’t be afraid to use your personality to differentiate yourself!

¹⁶ Squareup.com, “Everything You Need to Know About E-mail Marketing.” Accessed May 2018. Undated.

- Help keep consumers engaged by sharing your expertise, asking conversation-starter questions, and engaging with your audience.
- If you have an in-person location, you can make your brand shareable by styling part of the store in a way to encourage selfies and incent customers to post on social media. Include a hashtag on display so that customers know how to tag you, and even consider rewarding consumers for sharing about your business.
- Track performance through metrics such as number of fans, views, and visits.
- If possible, consider investing in a paid targeting strategy on social media for offers and product marketing. Using criteria such as location, demographics, and interests can help to ensure your marketing is seen by those most likely to visit.

Reviews and review sites¹⁷

- Create your business's profile on a variety of review sites. Reviews should be easy to find for prospective customers, and cover your business and the product/service you offer.
- If you have an online presence, be sure to direct consumers to your website. Maintain control over your business information, such as hours of operation and your official website, within these review sites. This also allows you to upload photos and respond to reviews. The more places your business appears, the easier people can find you and post feedback.
- To help remain competitive in your industry, your online reviews should be strong and current. Go the extra mile by responding to both positive and negative reviews quickly. New clientele will notice, and if done well, this can help build credibility.



- Remind customers to spread the word. If you're not seeing many reviews, create an appealing promotion to encourage in-store customers to post reviews online. Make customers aware of your promotion as they make an in-store purchase and include the deal on in-store signage.
- Don't be shy about asking your audience to review your business and your products. Per the 2018 Maru/Matchbox survey, close to 90% of consumers say supporting SMBs is important! People who are fans of your business or like it on social media sites are the prime audience to ask for a quick review. Remember to thank your fans when they complete a review.

¹⁷ Restaurant.org, "Manage My Restaurant: Score Positive Online Reviews for Your Restaurant." Accessed May 2018. Undated.

CASE STUDY: Colonel De's Gourmet Herbs & Spices

Colonel De's Gourmet Herbs & Spices – Connecting with Customers On- and Off-line

De Stewart learned to cook by watching his mother. Then later, when De's father and grandfather opened a produce market, De spent his summers learning the business. Twice in De's career, he found himself working for Colonel Harland Sanders, founder of Kentucky Fried Chicken, and decided to learn all he could about herbs and spices.

Inspired by his passion for cooking and creating his own secret spice mixes, De set off on an entrepreneurial journey and began selling his Colonel De spices and herbs. When he started 11 years ago, Colonel De's Gourmet Herbs & Spices consisted of himself, his wife, Susan, two folding tables, and 15 spices sold at local farmers markets and trade fairs. Now he has three stores, a 1,000 square foot warehouse, 22 employees, and close to 500 herbs, spices, and blends – and is simply known as “The Colonel.”

Spending 30 years as an IT professional before starting Colonel De's, The Colonel didn't hesitate to grow his business online by creating a website, getting active on social media, and connecting with customers online.



Today, Colonel De's has close to 6,000 Facebook fans. He mentions that his online fan base has grown roughly 35% since last year. When he meets people in the store, he asks them to follow him online. “The best thing is to make social media part of your normal business day.

Make sure you're finding out from your ideal customer how they use social media, and be present at their chosen channel. People don't respond to 'salesy' pitches, but they do engage when the messaging is right,” says The Colonel.

Customers can get previews of events, exclusive recipes, and weekly featured blends by signing up to receive communications from Colonel De's through their website, store signage, and text messages. The customer e-mail base has grown 16% over the past year.

These efforts have paid off as De's Gourmet's online customer reviews have an average rating of 4.8 out of 5 stars. While he attributes the success of Colonel De's to the three E's (*entertaining* customers, *educating* customers on his products, and ensuring his product is perfect for *eating*), The Colonel acknowledges that digital marketing has helped grow his business immensely.

"Technology has changed so much over the last ten years. Things that used to be impossible are now just basic. By keeping our products fresh and our technology current, I believe that we'll continue to grow."

“

The best thing is to make social media part of your normal business day. Make sure you're finding out from your ideal customer how they use social media, and be present at their chosen channel. People don't respond to 'salesy' pitches, but they do engage when the messaging is right.

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Note: Growth rates are based on 2017 vs. 2016 performance.

Enhancing the Customer Experience



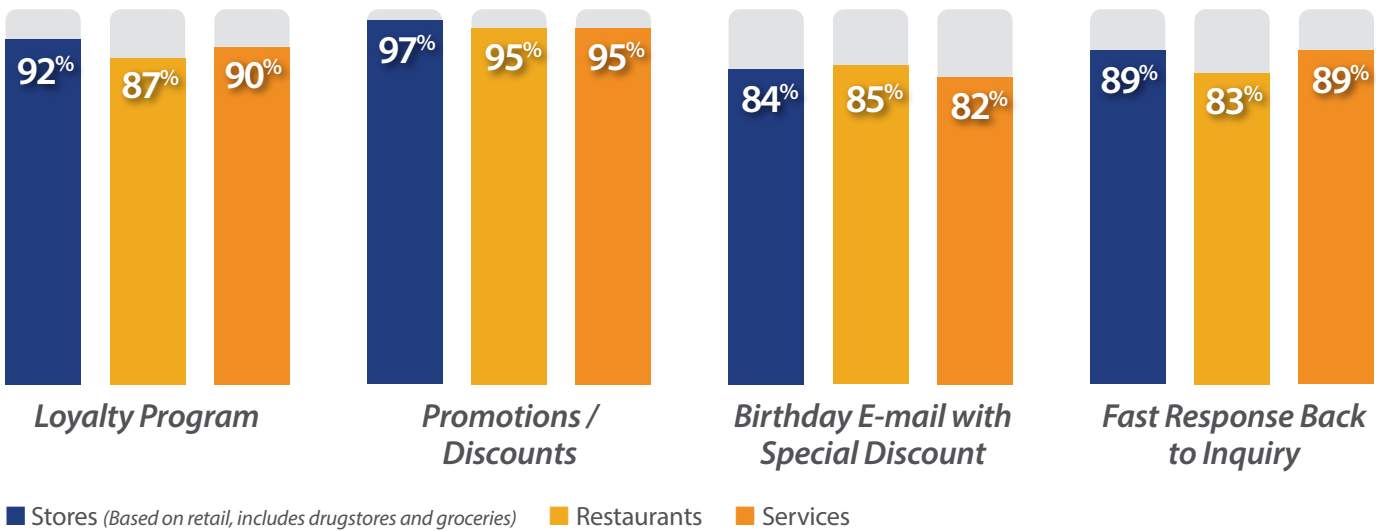
A strong customer experience can help bring in more customers, increase sales, and create customer loyalty. Digital tools and services that simplify the shopping experience are an important consideration for consumers.

Customer Service Considerations

Over half of consumers say they wish they could shop exclusively online. When asked which benefits or services would motivate consumers to shop at businesses, across industries, over 80% mention digital related benefits and services such as loyalty programs, birthday e-mails with special discounts, and fast responses back to inquiries.



What do consumers consistently look for when they're deciding where to spend?

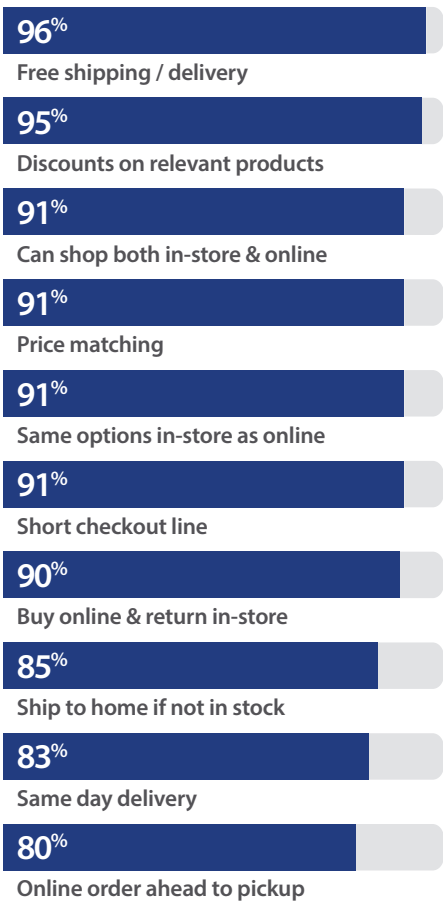


Source: Visa Digital Transformation Research, 2018 Maru/Matchbox survey.

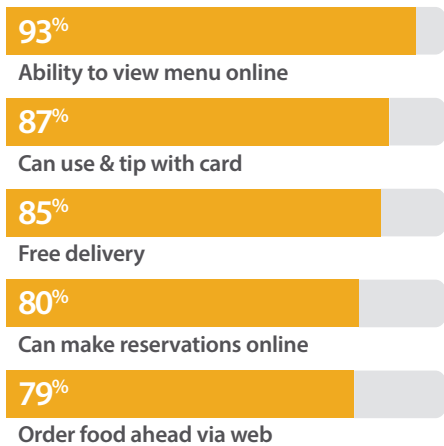
Other Important Service Considerations for Consumers: By Industry



Stores
(Based on retail, includes drugstores and groceries)



Restaurants



Services



“ For restaurants and services, consumers surveyed were drawn by factors such as the ability to order food ahead or sign up for a service online, and being able to use and tip with cards. ”

When it comes to determining where to shop, digital related services such as the ability to shop in-store and online, buy online and return in-store, order ahead online, and free or same day delivery are considered top motivating factors.

For restaurants and services, consumers surveyed were drawn by factors such as the ability to order food ahead or sign up for a service online, and being able to use and tip with cards.

In addition to the above considerations, approximately 80% or more of millennials in the survey specifically mentioned they are also motivated by digital related benefits and services such as curbside pickup, self-serve kiosks, and Wi-Fi at the business location.

Many SMBs have acknowledged such considerations, as 55% agree that innovative new ordering or payment services will have a positive impact on the business's bottom line. Not surprisingly, only half of SMBs have tried services such as shipping/delivery, online order ahead, curbside pickup, and self-serve kiosks.

Loyalty Programs

Loyalty programs, as mentioned earlier, are a significant consideration for consumers. 78% of consumers surveyed say they are more likely to choose a business that offers a loyalty program over one that does not. In fact, 65% of consumers surveyed said they look to see if a business has a loyalty program prior to shopping at a store, visiting a restaurant, or trying out a service. Only 10% of survey respondents prefer the traditional stamp/punch cards; the remaining 90% of consumers prefer a digitally-based loyalty program.

In practice though, just one in five SMBs surveyed offer loyalty programs. Survey results show that grocers are more likely to offer a loyalty program, with half offering it, but four out of five retail, services, and food/dining have none at all. Small (31%) and medium-size (44%) businesses are more likely to offer a loyalty program than micro businesses (16%).

When businesses *do* offer loyalty programs, businesses surveyed estimated that about half of their customers enroll. Close to 80% of these businesses say loyalty programs have a positive impact on average ticket size, repeat customers, and revenue.

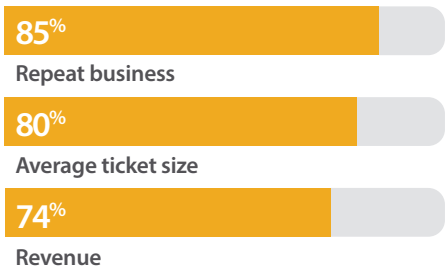
If SMBs don't already have a loyalty program, most don't plan to set up one up. A third believe the program isn't important and/or they don't need the information about their customers, even though 62% of SMBs agree that business is highly dependent on customer loyalty.



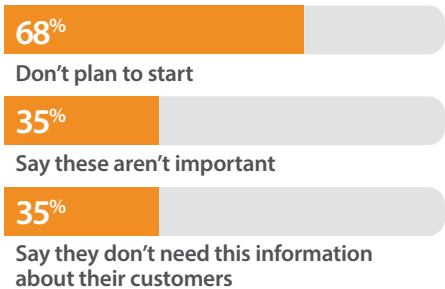
Only 2 in 10 SMBs Offer a Loyalty Program



Of those that offer, % that agree that loyalty program has a big impact on:



Of those who don't offer a loyalty program:



Source: Visa Digital Transformation Research, 2018 Maru/Matchbox survey.

CASE STUDY: Mixt

Mixt – Digital Loyalty App Speeds Up Lines, Grows Customer Loyalty

Frustrated by the lack of delicious, healthy, and high-quality lunch options, the Silverglides – Leslie and David – launched the first Mixt in 2006.

They knew right from the start they had something great. Long lines formed, people talked, and they quickly grew into a multi-unit restaurant concept across California.

From the beginning, Mixt wanted to reward customers for waiting in their lines and loving their food. So they started a traditional punch card loyalty program for customers. However, there were several pain points with this system. It was expensive to print out the cards. Customers would often forget their cards, slowing down the checkout process. Plus, Mixt had no way of tracking repeat purchases with their enrolled customers.

So, in 2012, Mixt started using a digital card-linked loyalty program that provides customers with a more seamless experience for earning rewards. Instead of keeping track of punch cards, customers simply download an app to their phones and enroll their credit or debit card. Earning loyalty perks is now as easy as purchasing a delicious lunch with their registered card.





Customers love the seamless nature of the card-linked program, and Mixt has seen great results. Transaction data suggests that customers enrolled in the loyalty program may come back twice as often as other customers. Over 80% of the enrolled customers stay active in the program after three months. And since launching the digital loyalty program, Mixt has seen a 160% jump in loyalty membership without large related marketing efforts.

Moving from a traditional loyalty program to a digital loyalty program has done more than just keep lines moving and increase membership. Mixt is now able to

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Moving from a traditional loyalty program to a digital loyalty program has done more than just keep lines moving and increase membership. Mixt is now able to gain insights on customers' habits, send e-mail marketing, and delight Mixt Rewards members with birthday surprises.

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gain insights on customers' habits, send e-mail marketing, and delight Mixt Rewards members with birthday surprises.

“As a growing brand, we depend on finding the most progressive technology solutions for streamlining operations and delighting our customers. Our digital loyalty program is no exception – it gives us actionable data and ensures our most loyal customers stay that way,” says David Silverglide, Mixt Co-Founder.

How to: Launch a Loyalty Program

Loyalty programs can help encourage customers to visit and return to your business. Some guidelines for creating a loyalty program:

- You can structure a loyalty program however you like, but they all boil down to the same concept: for each set amount of business the customer gives you, you give them something.¹⁸
- A few guidelines to consider when creating your loyalty program:¹⁹
 - Complex rules for earning points may discourage customers from signing up.
 - Customers should earn a reward in a timely manner.
 - Offer a reward that people want, and an easy path to getting rewarded. Consider offering customers the flexibility to choose the type of reward such as a discount or a free item.
- There are multiple providers and options available to help you get up and running with a loyalty program:
 - **POS enabled:** Check to see if your POS provider has a built-in loyalty program. For example, if your POS can prompt customers to provide their e-mail address, you can automatically credit customers with points tied to their e-mails.
 - **Card-linked programs:** Usually offered by payment networks, banks and third parties, these programs allow customers to seamlessly enroll and automatically receive discounts and rewards if their registered card is used to make a purchase at your business.²⁰
 - **Plug and play solution:** There are various customer loyalty solutions online. When evaluating these, think about what offers and rewards matter most to your customers and pick the provider that suits your business best.
 - **Customized:** It's also possible to work with a loyalty provider to create a custom program for your customers. Full service loyalty providers can help you analyze, track, and examine your customer's engagement with the loyalty program.
- Once you've set up your loyalty program, promote it to your customers. The more they use it, the more likely they are to turn into loyal customers.
 - Be sure to train employees so they can promote the program and answer any related customer questions.



¹⁸ Authorize.Net, "Keep Customers Coming back," March 9, 2018.

¹⁹ Squareup.com, "How to Set Up a Loyalty Program that Works," Accessed May 2018. Undated.

²⁰ Visa.com, "Visa Commerce Network," Accessed May 2018. Undated.

CASE STUDY: Keva Juice

Keva Juice – Growing with Digital Loyalty

Keva Juice makes delicious smoothie and juice blends at 22 retail locations across the U.S. Their loyal patrons look at Keva as much more than a snack or drink; it's simply the best smoothie out there.

Keva's revenues have been growing strong - a 30% increase over last year. A big part of this success comes from their ability to easily stay in touch with customers while keeping costs low.

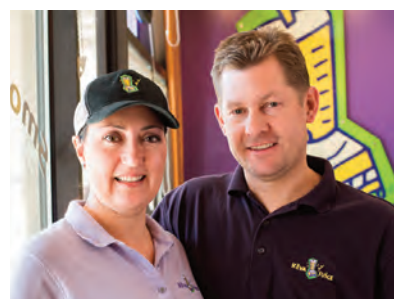
After the recession of 2009, Keva decided to use digital services to help grow its business. To communicate directly with their customers, Keva decided to use Square's digital platform to give customers the option to receive e-mail marketing communications at time of payment. This allowed Keva to send tailored promotions through automated campaigns such as birthday promotions and product discounts. "Doing this saved us so much time! Everything runs in the background, allowing us to use the time for other pressing business items," said Gary Thomas, CEO of Keva Juice.



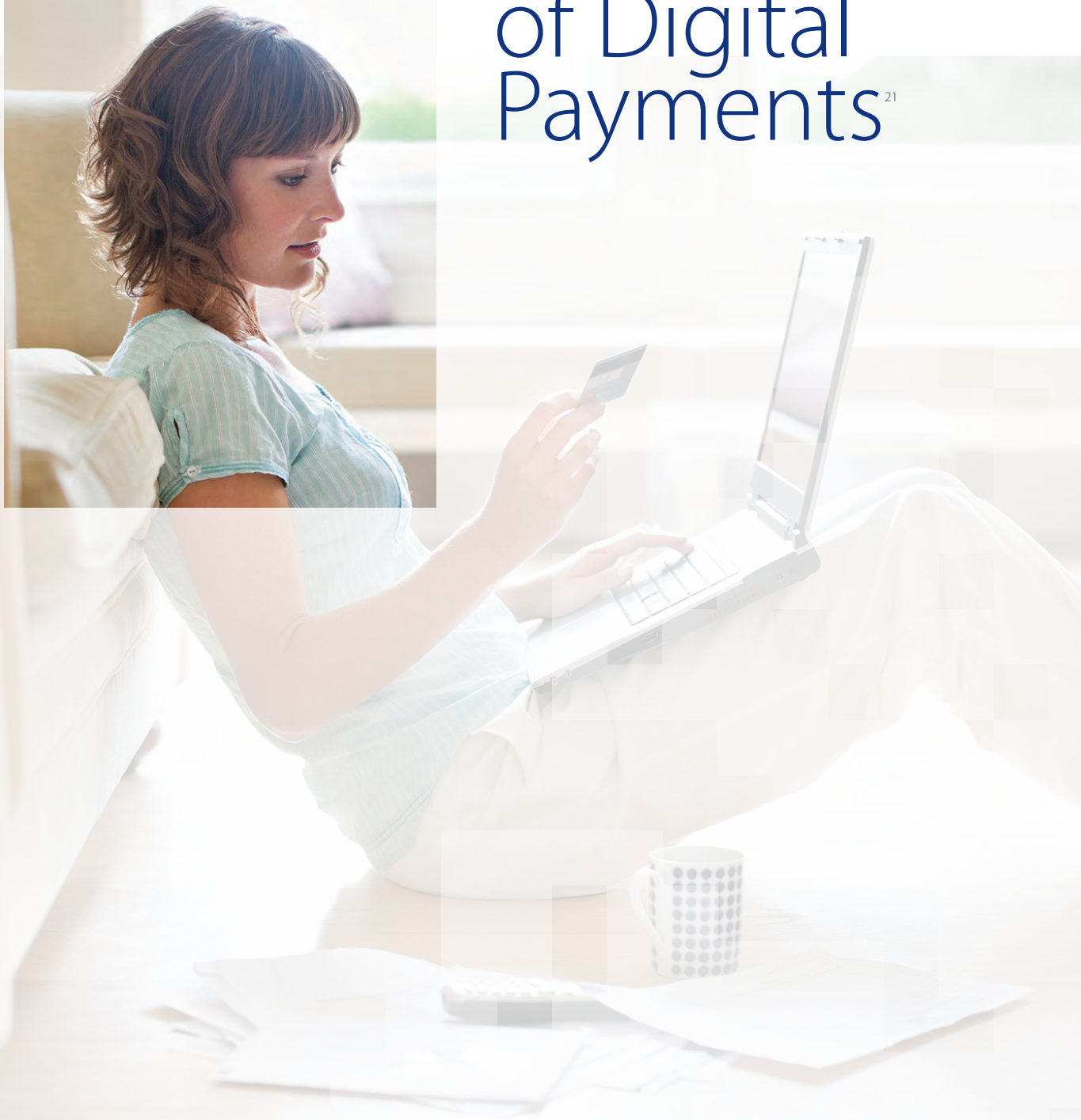
Keva discovered that its previous paper based loyalty program was prone to fraud. "We noticed the paper punch cards were sometimes copied and manipulated." So Keva started using Square's digitally based punch-card loyalty program, which quickly grew its program to 35,000 customers. "When customers drive near our store, they get reminders letting them know of their rewards status. In a short time, over 204,000 punches have been issued with over 6,800 rewards redeemed."

Keva mentioned that its revenue increase is largely due to the digital tools they use.

"Technology and digital tools have helped us to run our stores so much more efficiently. We are so glad we decided to try these services," said Gary.



The Impact of Digital Payments²¹



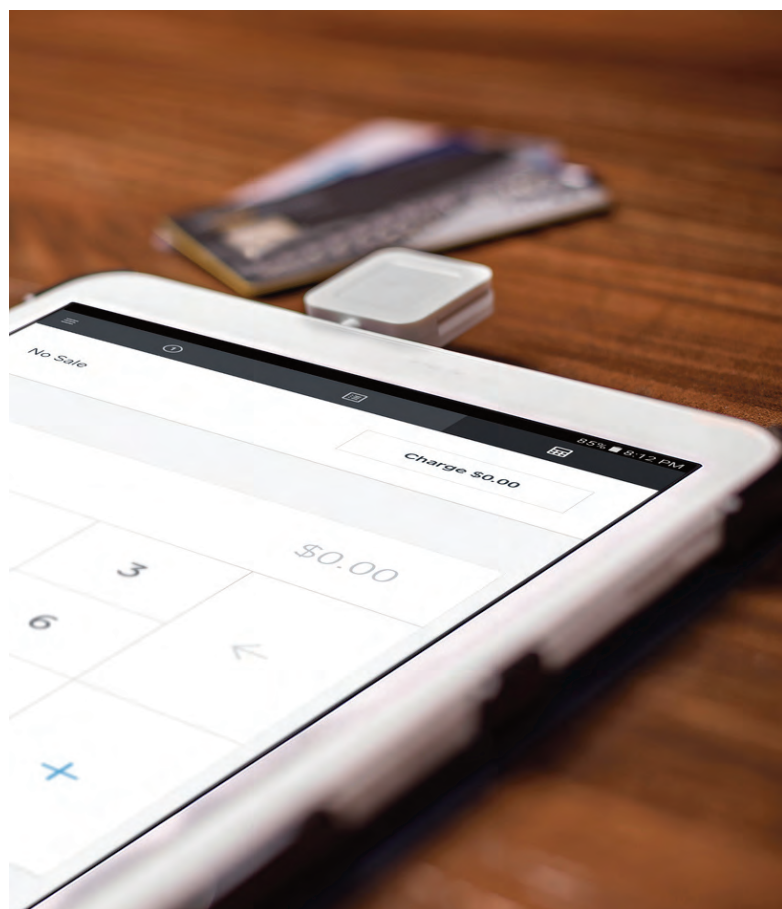
²¹ Digital payments defined as wire transfers, cards (such as credit, debit, prepaid), mobile payments and peer-to-peer payments. Non-digital payments defined as cash, check and money orders. See Methodology for details.

On average, only 27% of SMBs surveyed prefer digital payments over non-digital payments. However, based on the surveyed SMB's estimates, digital payments are cheaper to process and more preferred by consumers.²²

Impact on SMB's expenses: Cost of Digital and Non-Digital Payment Methods

Moving, storing, and securing cash, checks, and money orders take valuable time and are also subject to fees and losses. This includes losses from inaccurate cash handling, check fraud, theft and procedures required to minimize these losses. Not surprisingly, 74% of SMBs agree that accepting digital payments helps them manage their business more effectively. That said, businesses also face costs and time with accepting digital payments, like setting up the systems needed to process payments, ongoing infrastructure fees, chargebacks, and the cost of accepting payments. However, SMBs estimate, based on 2018 survey data, that the average cost of processing digital payments, inclusive of both direct expenses and labor costs, is 57% less than non-digital payments.²³

What is driving the payment processing costs? Various expenses are associated with non-digital and digital payments. Non-digital payment direct expenses include bank processing fees, third-party transportation costs, shortages, bounced checks, and related equipment



“ ...the average cost of processing digital payments, inclusive of both direct expenses and labor costs, is 57% less than non-digital payments. ”

²² Based on 2018 Maru/Matchbox survey data. Analysis on survey data completed by independent third party, ESI ThoughtLab. See Methodology for details.

²³ Based on 2018 Maru/Matchbox survey data. Analysis on survey data completed by independent third party, ESI ThoughtLab. See Methodology for details.



costs. Digital payment expenses include POS terminals, card acceptance fees, cybersecurity fraud prevention costs, and chargebacks. Based on SMB's estimates of their direct acceptance and fraud related expenses,²⁴ digital payments on average cost 50% less than non-digital payments.

Digital payments can free up employee and owner time. Businesses spend a significant amount of time processing payments received from customers. For non-digital payments, this includes cash counting and reconciliation, prepping and filling cash registers, preparing deposits, transporting cash and checks to and from the bank, and security monitoring. For digital payments, this includes storing and filing of card signature slips, card reconciliation, checking terminals for security, and dealing with card fraud investigations.

“

Based on total direct acceptance and fraud related expenses, digital payments on average cost 50% less than non-digital payments.

”

The non-digital payment process that takes the longest is counting cash and reconciling the books, followed by prepping and filling the cash registers, and going to the bank. For digital payments, the process that takes the longest for most firms is dealing with the card signature slips and card reconciliation.

On average, SMBs surveyed estimated that it takes 542 hours to process \$100,000 in non-digital payments compared to 189 hours to process \$100,000 in digital payments. In other words, SMBs surveyed said that it takes almost three times as much time to process non-digital payments compared to digital payments.

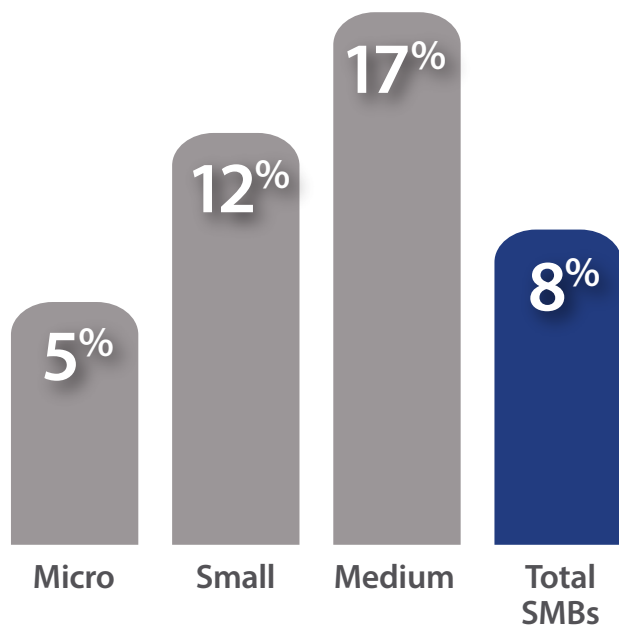
By reducing the amount of employee time necessary to process payments, digital payments can free the employee for more productive uses of their time.

Incremental accounts payable labor savings.

Businesses also spend a significant amount of time paying their suppliers and vendors. Paying digitally allows businesses to save time through more efficient accounts payable processing. SMBs surveyed indicate that, on average, they process 25% more accounts payable transactions per full-time equivalent employee (FTE) when paying digitally compared to non-digitally. These labor savings are incremental benefits to those referenced above from acceptance of digital payments.

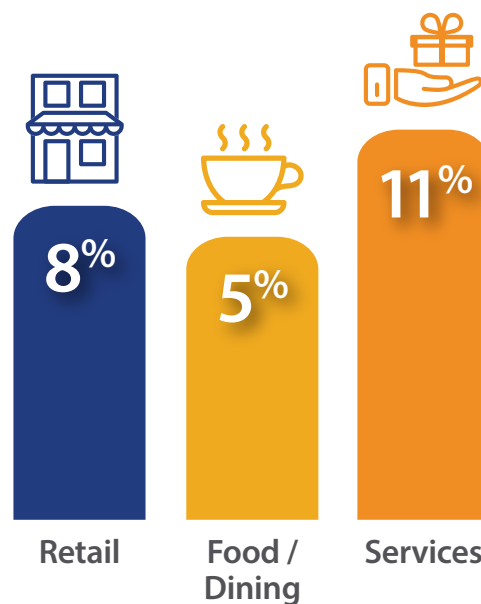
²⁴ Directly attributable expenses for digital payments include costs related to payment infrastructure, POS terminals, and card acceptance fees. Fraud related expenses include skimming, chargebacks, and cybersecurity fraud prevention. Directly attributable expenses for non-digital payments include bank processing fees, applicable third-party transportation costs, and equipment for processing non-digital payments. Fraud related expenses include shortages, counterfeit currency/money orders, bounced and returned checks.

% Increase in Sales as a Result of Accepting Digital Payments: By Business Size²⁵



Based on businesses who experienced a specific increase or no change.
No business reported decreases in sales.

% Increase in Sales as a Result of Accepting Digital Payments: By Industry²⁶



The lift is also perceptible across industries, particularly for Services and Retail
(Excludes Groceries. Sample too small for accurate read)



of SMBs tell us that customers spend more when using card versus cash.

Impact on SMB's Revenue

The acceptance of digital payment methods enables businesses to sell more goods and services to consumers who prefer digital payment methods. Two-thirds of SMBs tell us that customers spend more when using card versus cash. Half say sales increased after they began to accept digital payments – by an overall average of 8%.²⁷ The impact increases with the size of the business, ranging from 5% for micro businesses to 17% for medium businesses.

²⁵ Annual sale criteria by SMB size – Micro <\$500K, Small \$500K-\$5MM, Medium \$5MM-\$10MM. See Methodology for details.

²⁶ Grocery segment too small to have valid read.

²⁷ Based on survey participants who reported either specific increase or no impact in sales volume after accepting digital payments. No participant reported decrease in sales volume. See Methodology for details.

How to: Set Up Digital Payment Acceptance (In-Store and Online)

- Selecting a payment provider is the first step in enabling your store, website, or mobile device to accept digital payments and deposit the funds automatically into your merchant account.
 - Be sure to ask if the payment provider provides tools and solutions that help you manually submit transactions, protects your business and customers from fraud, gives secure online access to transaction records so you can track sales, and charges for customer support.
- When creating a merchant account, consider how you'll be accepting payments:
 - If you're already selling products from a physical location, you probably have a Card Present (CP) merchant account. If you plan to sell online or through the phone, you'll also need a Card Not Present (CNP) merchant account.
 - Independent Sales Organizations (ISOs), Payment Facilitators (PFs), and Acquirers are the organizations that provide merchant accounts.
 - Ready to get started? Details on various industry players, such as acquirers, ISOs, and PFs, are available through an internet search or check out <https://usa.visa.com/run-your-business/accept-visa-payments.html> for more information.
- When evaluating payment providers, some things to look for:
 - **PCI Compliance**
 - Merchants that accept card payments are required to comply with the Payment Card Industry Data Security Standards (PCI DSS), a set of comprehensive requirements to facilitate the adoption of consistent data security measures.
 - Check to see if the payment provider offers an information security and compliance management service that can help you comply with PCI DSS.
 - **Fraud prevention**
 - Preventing fraud requires a balance of minimizing risk without turning away business. Check to see if the payment provider offers EMV chip payment terminals to prevent in-store fraud. Also, see if your payment provider can help you mitigate fraud by using anti-fraud tools like card verification values, address and zip verifications, and fraud scoring engines.
 - **Options to accept payments in store**
 - See what kind of alternatives the payment provider offers to accept card payments in-store. For example, a virtual POS or mobile POS is a card reading plug-in for either your computer or phone. With these pieces of hardware, you can easily swipe, dip, or tap customer's cards or phones and accept payment.



- Contactless cards allow consumers to pay in seconds. Check if the POS system accepts both EMV contact chip and EMV contactless cards. To do so, check that your payment provider offers these solutions, and ask about enabling “Quick Chip” to offer consumers an even faster payment experience.

► PRO TIP: *Check with your payment provider to confirm that your POS terminals are in compliance with the latest EMV specifications.*

- **Card on file solution**

- If applicable for your business, card on file solutions can facilitate checkout and process recurring transactions as well as loyalty programs by securely storing your customers’ card information.

- **Digital invoicing²⁸**

- For certain industries, digital invoicing could improve the customer billing experience. Digital invoicing is a convenient way to send customers their bills through e-mail — they simply click a link in the e-mail to pay you securely online, even from mobile devices. If interested, check with your payment provider if they offer this service.

²⁸ Authorize.Net, “Invoicing.” Accessed May 2018. Undated.

Top benefits of digital payments



Given consumers' eagerness to embrace tools and technology, it's not surprising to see consumers estimate that 67% of their discretionary expenses are paid through digital payment methods, such as cards or through a mobile device. In fact, 66% of consumers can imagine a future in which only digital payments will be used. The same proportion would choose to shop solely with their card.

Consumers identified the top benefits of digital payments are being able to shop online (90%), convenience (89%), ease of tracking spending (84%), rewards for using it (83%), and time savings compared to cash and checks (79%).

Notably, 82% of consumers dislike shopping at businesses that require minimums or surcharges for digital payment purchases. Among consumers who heavily prefer digital payments, 23% use cash for small ticket purchases because merchants prefer or require it. Showcasing welcomed acceptance can help



shift more volume towards digital and potentially increase revenue.

Further, EMV-based contactless cards "tap-to-pay" approach is simple, quick, secure, and allows consumers to pay in seconds. Investment in EMV-based contactless also lays the foundation for acceptance of payment technologies such as mobile devices and wearables. Mobile payment usage is quickly increasing – in 2017, U.S. consumers used their phones to pay for nearly \$50 billion worth of goods and services at a physical point of sale. This figure is expected to continue to grow by double digits through 2021, to roughly \$190 billion.²⁹

It's important to note that "going digital" isn't necessarily an all-or-nothing option, but can be a journey towards reducing cash usage. Incremental changes can add significant value, like having more welcomed acceptance in-store, establishing a business website with online payments, or eliminating purchase minimums or surcharges for accepting digital payments.

²⁹ eMarketer, *US Mobile Banking and Payments: eMarketer's Estimates for 2016–2021*, August 2017.

CASE STUDY: Caribbean Café

Caribbean Café – Accepting Digital Payments Adds 20%+ to Business

Rachael Melin and Ice Eriste love to feed people. They had worked in restaurants, knew how to cook and how to run a kitchen – so they opened Caribbean Café to sell signature West Indian dishes, like the always-beloved jerk chicken.

At first, they worked festivals and weekend events, but everyone raved about how great the food was, so they started selling during the week too. They operated on a cash basis, thinking that would keep everything simple.

Pretty soon though, they realized that running a cash-only cart was hurting them. Caribbean Café was close to a college campus in Chico, CA, so most of their customers were young adults used to paying for even small purchases with cards – lots of them walked around with little or no cash at all. “We estimated that we were turning away about one in five, or 20%, customers who wanted to pay with a card and didn’t have enough cash,” says Rachael. Having to turn away card paying customers was a problem at festivals and



special events, too – these often took place off the beaten path, in a park or campground, where there was no ATM and nowhere for customers to get cash.

Rachael and Ice decided to turn their smartphone into a card reader. They bought a little attachment that plugged into their smartphone, and presto! They could take cards. Rachael says, “It felt ten times easier to just swipe a card than take cash. And, I don’t have to do math or make change! We used to leave for the day having left over food in the truck...now we sell out!”



“It felt ten times easier to just swipe a card than take cash. And, I don’t have to do math or make change! We used to leave for the day having left over food in the truck...now we sell out!”

CASE STUDY: Epic Burger

Epic Burger – Going Cash-Free: Safer, Faster, More Profitable

Serving up all-natural hamburgers, fries and shakes, David Friedman opened the first Epic Burger in 2008, aiming to jazz up Chicago's fast casual scene with fresh, sustainably sourced ingredients. Now, still using the same ultra-high-quality ingredients, Epic Burger has eight locations around the city, and has expanded the menu to include things like an all-natural chicken sandwich, Halal-certified beef, and vegetarian friendly options. Inspired by its mission to serve "A More Mindful Burger," the restaurant's relentless focus on the simplicity of real ingredients is a distinction guests can taste.

David decided to stop accepting cash after several unfortunate incidents related to cash-handling. He thought this would make running Epic Burger safer and easier, but he didn't anticipate how much it would also help grow his business – average orders, due to the larger card purchases, went up 10% and the number of orders during peak hours, given the faster pace, went up 17%.

David saw other benefits as well. Instead of having employees spend two hours a day handling cash, they could now shift their focus on customer experience related tasks like training and cleaning. He also didn't have to pay an armored car service anymore.

Epic Burger estimates that these changes will save between \$90,000 - \$100,000 per year.



“

Average orders, due to the larger card purchases, went up 10% and the number of orders during peak hours, given the faster pace, went up 17%.

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“Taking cash out of Epic Burger makes it a nicer place to visit and work,” says David.

“It's made it safer and smoother for both our team members and our customers.”



Note: Data points are estimates based on 4 months prior vs. post going cash-free.

Other Transformation Tips



In an effort to assist SMBs with their digital transformation efforts, the following how-tos are provided to support other aspects of your business.

How to: Run Other Parts of Your Business Digitally

You can also use technology when it comes to managing other parts of your business such as supplier and inventory management, tracking business expenses, and staffing and payroll optimization.

- **Supplier and inventory management:** A variety of products and software can help you track inventory (including providing alerts when you're running low on an item) and manage purchase orders (POs), invoices, and contracts more efficiently.
- **Tracking business expenses:** Small business debit and credit cards can help track expenses quickly and easily, provide purchase protections, and use controls to protect from any employee misuse.
- **Staffing & payroll optimization:** A multitude of programs can provide guidance on tasks such as predicting labor costs, scheduling hourly employees, and managing payroll.



How to: Generate Funds to Grow Your Business

Want to grow and become more digital-savvy but don't have the funds? After determining how much you need to borrow and what you can afford, here are some lending options available:

- Loan through a traditional bank or online lender is good channel if you need a large loan. Be sure to shop around to ensure you get a good interest rate, payment plan, and terms that suit your needs.
 - When applying for a loan, banks will likely require you to show your business plan and sales forecast, balance sheet and P&L, bank statements and tax information, and any debts you or your business may have. Expect a lender to test you a bit as they're simply trying to learn about your business. And while you shouldn't hide anything, do focus on the positive and back up your answers in a clear, calm way.³⁰
- Credit through a small business credit card can provide the needed credit line to fund smaller amounts. A small business card can be great for separating expenses for tax reasons, building business credit, and offering business specific perks such as employee cards and a credit limit. Some cards may also offer a sign-on bonus, or low interest rate promotion.
 - Qualifying for a credit card can be easier than qualifying for a loan, but be sure to check the financial terms (such as fees and APR) to determine if it's the right option for you. Search online or visit your local bank on potential small business card products that best meet your needs.



- Some businesses are financed by crowdfunding, which involves collecting donations from many people – usually online. There are two basic types of crowdfunding: rewards-based crowdfunding, where donors receive a “reward” once the fundraising goal is reached (a free product sample, for example) and equity crowdfunding, where donors pledge equity in a new company or venture.³¹
 - While crowdfunding can be a great way to increase awareness and exposure, there are risks associated with it as well. Failure to meet fundraising goals can negatively impact a business’ reputation. It’s also unpredictable—while some crowdfunding campaigns are hugely successful, many are not.

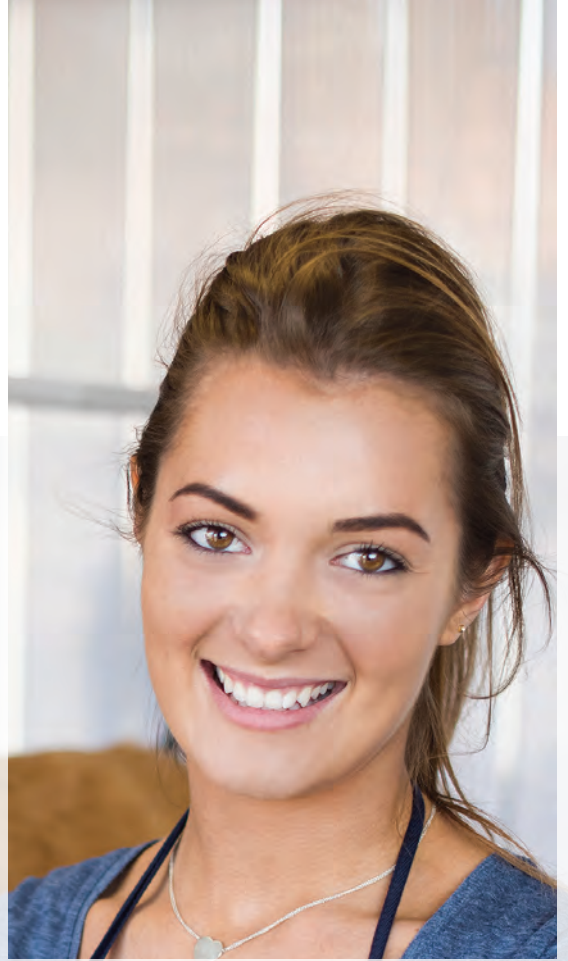
³⁰ Joe Mullich for Capital One Spark Business. “Getting a Small Business Loan,” July 27, 2015.

³¹ NFIB. “NFIB’s Guide to Small Business Grants,” April 29, 2016.

Credit through a small business credit card can provide the needed credit line to fund smaller amounts.



Conclusion



Consumer expectations are evolving to embrace a ‘digital first’ mindset, providing an opportunity for SMBs to grow their business.

Many consumers are actively using digital channels to discover and shop for goods and services, making it a significant opportunity for SMBs to enable digital consumer discovery and commerce.

Consumers are also showing preference for tools and technology that enhance and simplify their shopping experience. Many SMBs are attuned to this as more than half agree that innovative new ordering or payment services will have a positive impact on the business's bottom line.

These preferences have helped bring change to the payment landscape. 66% of consumers surveyed can imagine a future in which only digital payments will be used. Aside from consumer preference, digital payments can have a positive impact on SMB's bottom line. Two-thirds tell us that customers spend more when using card versus cash. And let's not forget that in aggregate, SMBs surveyed estimated that digital payments are 57% cheaper to process than non-digital payments.³²

In short, digital commerce can offer numerous benefits to small and medium size businesses. We hope the content provided enables you to meet your business's digital needs.

Pathways to Digital Transformation



³² Based on direct expenses and labor costs. Findings based on SMB reported data, see Methodology for details.

A woman with dark, curly hair is smiling and looking down at a laptop. She is wearing a white blazer over a striped shirt. The background is a blurred office environment with white shelving units. The word "Methodology" is written in a blue serif font in the upper right corner.

Methodology

Quantitative Analysis Details

Note: Survey results based on Maru/Matchbox 2018 SMB and Consumer Surveys. Cost analysis based on SMB Survey and done by independent third-party, ESI ThoughtLab.

Business impacts listed below were calculated using survey data and government provided wage data:

1. Cost of digital and non-digital payments
2. Accounts payable labor impacts
3. Increased revenue from accepting digital payments

Impacts were calculated separately for firms at different points across the size spectrum and for each industry. The average impacts represented a weighted average of the impacts by firm size (micro, small, and medium). The weights are as follows: micro 0.63, small 0.34, and medium 0.03.

1. Costs of digital and non-digital payments

Total costs associated with processing payments from customers are based on a combination of the processing costs and labor costs. Total costs for digital and non-digital payments were calculated by adding the applicable payment processing costs, associated with fees and fraud, and the labor costs.

Small and Medium Business

Fieldwork: 20 minute online survey, fielded: February 22 - March 26, 2018

Target: Business Payment Decision Makers

- Responsible for managing finances and/or making payments for business expenses and/or determining types of payment methods accepted
- Decision making authority for payment method selection
- Annual sales \$50,000 - \$10,000,000
- Have storefront or in-person sales

Quotas were set to ensure adequate representation of key industries and business sized segments:*

	Micro	Small	Medium	TOTAL
# of Employees	<10	10<50	50<250	
Annual Sales	<\$500K	\$500K<\$5MM	\$5MM-\$10MM	
# of Locations	1	2-3	>3	
Industries				
Food/Dining	47	72	26	145
Retail	50	49	40	139
Services	44	36	25	105
Grocery	7	13	16	36
Total	148	170	107	425

Consumer

Fieldwork: 30 minute online survey, fielded: March 13-27, 2018

Target: General Consumer

- 18 years or older
- Checking and/or savings account
- Balanced age, income and regional representation

Quotas were set to ensure adequate representation of age and income groups.

Income	Millennials	Gen X	Baby Boomers	Post-Baby Boomers	Total
Low (<\$50,000)	82	101	137	171	491
Moderate (\$50,000-\$75,000)	117	119	153	185	574
Middle (\$75,000-\$100,000)	166	144	151	179	640
High (\$100,000+)	191	199	177	186	753
Total	556	563	618	721	2,458

Recruitment: Recruited via the Maru Matchbox Springboard Network. Respondents are balanced appropriately by age and gender and, for SMBs, location of business.

Weighting: Results are weighted by region and, for SMBs, revenue and industry affiliation and, for Consumer, age, gender and income to U.S. census statistics.

*Businesses were classified based on annual sales, and at least one of the other listed criterion (i.e. number of employees and/or number of locations)



Payment Processing Costs

The first step was to calculate percentage of revenue that came through various payment methods.³³

Payment methods defined as the following:

- Digital payments: credit, debit, and pre-paid cards; mobile payments, mobile peer-to-peer, and wire transfer.
- Non-digital: Cash, check, and money order.

The survey asked SMBs to quantify the costs, tied to direct expenses and fraud related costs, associated with accepting digital and non-digital payments:³⁴

- Non-digital payment related fees and expenses: bank processing fees, change fees, security cameras, third-party transportation costs, and equipment for processing cash and check payments.

- Non-digital related fraud and theft expenses: shortages, counterfeit currency/money orders, bounced and returned checks.
- Digital payment related fees and expenses: payment infrastructure, POS terminals, dedicated phone/communications lines, fees associated with card acceptance.
- Digital related fraud and theft expenses: skimming, fake cards and chargebacks not covered, cybersecurity fraud prevention.

The total costs were calculated by combining fees and expenses with the fraud costs. Non-digital costs calculated as a percent of non-digital revenue, through dividing the non-digital costs by non-digital revenue. Digital costs were calculated in the same manner. This resulted in an estimate of the costs to process each dollar of digital and non-digital revenue.

³³ Q202a: In a typical day, what percentage of your business's sales are paid for using...?

³⁴ Q304: How much does each of the following cost your business in a given month?

Payment Acceptance Labor Costs

The survey asked SMBs how much time was spent in a given week by all employees managing payments across activities associated with each payment method (digital vs. non-digital).³⁵

- Non-digital payments tasks: Counting cash and reconciling accounting books, prepping and filing cash registers, getting cash and change ready for bank deposits, monitoring the cash box, identifying counterfeit notes, investigating why cash is missing, dealing with bounced checks, transporting cash and checks to and from the bank to make deposits or get change, and other non-digital payment-related activities.
- Digital payment tasks: Storing and filing card signature slips, card reconciliation (e.g. chargebacks), time spent keeping terminals secure, dealing with card fraud investigations, other card management related tasks, and other digital payment related activities.

The appropriate activities were aggregated to arrive at the total time spent on digital and non-digital payments. Time estimates were annualized. The number of hours needed to process in digital and non-digital payments were estimated by dividing the number of hours (digital and non-digital) by the revenue (digital and non-digital). The results were then multiplied by \$100,000 to arrive at an estimate of the number of hours required to process \$100,000 in payments.

The number of hours required to process digital and non-digital payments were converted into a dollar value by multiplying the number of hours by the average wages for each industry as obtained from the Bureau of

Labor Statistics Quarterly Census of Wages and Employment (BLS QCEW).³⁶ Note that this is likely an underestimate of the true costs that the employer faces because it does not include payroll taxes and other expenses.

Hourly wages were calculated by dividing the annual wages by 2,000 hours. Labor costs were converted into percentages by dividing the digital and non-digital labor costs by the digital and non-digital revenue, respectively.

2. Accounts Payable Labor Impacts

To normalize the data and to make it comparable across industries and firm sizes, the accounts payable labor impacts calculations are based on the number of transactions processed per full time equivalent employees (FTE). This can be thought of as the number of payments that a full-time employee would be able to process in an average year.

The first step was to calculate the number of FTEs that process digital and non-digital payments. The survey asked respondents how much time they spend in a typical month processing accounts payable transactions³⁷ and the distribution of payments across methods.³⁸ Monthly payments were annualized and the total amount of time spent processing accounts payable calculated using digital and non-digital methods in a given year.

Survey also asked how many payments respondents make in a typical month to vendors and suppliers³⁹ and the distribution of payments across methods.⁴⁰ Total annual payments in given year undertaken using digital and non-digital methods were calculated.

³⁵ Q303: We'd now like you to consider the amount of time that you and your employees spend managing your payments. Below is a list of activities related to managing payments. Please estimate the amount of time spent in a typical week on each activity. Please answer in number of hours and minutes spent in total on payments processing across all of your sales channels and employees.

³⁶ United States Department of Labor: Bureau of Labor Statistics – Quarterly Census of Employment and Wages. <https://www.bls.gov/cew/>

³⁷ Q309 In a typical month, how many hours does your business spend processing accounts payable?

³⁸ Q309a Now, please share what percentage of this time is spent processing accounts payable via...?

³⁹ Q307 Thinking about a typical month, approximately how many accounts payable transactions (i.e., paying suppliers, purchasing inventory) does your business make?

⁴⁰ Q308 Thinking about a typical month, what percentage of your accounts payable transactions (i.e. paying suppliers, purchasing inventory) do you pay via...? Digital payments (%), Non-digital payments (%)



The final step was to divide the number of digital and non-digital transactions by the number of FTEs to arrive at estimate of the number of accounts payable transactions processed per FTE.

3. Increased revenue from accepting digital payments

Increased revenue from accepting digital payments was calculated based on the experience of firms that recently began to accept (within the last 5 years)⁴¹ digital payments and have been in operation for more than 5 years.⁴² One hundred and fifty (150) firms met this criteria.

Based on the survey responses, the average revenue increase was calculated for firms that recently began to accept digital payments.⁴³

⁴¹ Q207 For how long have you been accepting digital payments? For less than 6 months, 6 months < 1 year, 1 year < 2 years, 2 years < 3 years, 3 years < 4 years, 4 years < 5 years, 5+ year, Since my business started

⁴² Q106 For approximately how many years has your business been in operation? Less than 12 months, 1 year to less than 3 years, 3 years to less than 5 years, 5 years to less than 10 years, 10 years or more

⁴³ Q208 How, if at all, have your sales been impacted by accepting digital payments? Have they...? Increased, stayed the same, decreased. Q209 By how much have your sales [INSERT: increased/decreased] after introducing digital payments?

Disclaimers and Permissions

To provide small and medium size businesses (SMBs) market insights and tangible strategies to meet the evolving consumer demands for a “Digital First” commerce experience, a multi-pronged research program was conducted to assess digital transformation barriers and opportunities for SMBs. U.S. consumers and SMBs were asked details on how they conduct commerce, receive payments, and the costs and benefits associated with these activities. As part of the full digital commerce picture, we also explored preferences, marketing and advertising activity, new service considerations, and customer loyalty programs. This report summarizes the SMB and Consumer perspectives.

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