



Visa Consulting & Analytics (VCA)

Capturing the SMB acquiring market - two pillars to success

Acquirers must challenge the
status quo and redefine the way they
meet changing merchant needs.





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New dynamics and deep disruption – all change in the acquiring market

In the face of shifting merchant needs and expectations, big is no longer beautiful in the acquiring market. Hit by disappointing financial results, many of the larger incumbent acquirers have seen share price collapses and embarked on major cost-cutting and divestment campaigns.

Meanwhile, several new acquiring challengers have emerged. Focusing on growth segments, with an emphasis on the SMB space, they have often outperformed the wider market – by winning existing SMB business from incumbent acquirers and persuading smaller companies to accept cards for the first time.

So, what are these newer challengers doing to achieve cut through in the SMB market? How has their performance compared to their better-established peers? And what could incumbent acquirers do to compete more effectively in the dynamic and fast-growing SMB space?

Our definition of SMBs

For Visa, SMB stands for small and medium businesses.

At Visa Consulting & Analytics (VCA) in the UK, we categorise them by annual purchase volume and segment them into three tiers:

- **Micro** businesses generating less than £250,000 per annum
- **Small** businesses generating £250,000-£2.5m per annum
- **Medium** businesses generating £2.5m-£25m per annum

Typically, they have different banking and payment requirements from larger enterprises, with fewer people and resources (if any) dedicated to banking and payments, and no specialist payments knowledge. They therefore look for super-simple products and propositions, that are easy to understand, easy to implement, and easy to use.



An attractive growth lever – the scale and potential of the SMB segment

It has significant scale – most companies are SMBs and they account for a large and growing proportion of economic activity. In the UK, where 99% of all enterprises are classed as SMBs, the number of businesses with fewer than 50 employees jumped by 40,000 in 2023 alone (up from 5.47m in 2022 to reach 5.51m).¹

It is rapidly digitising – irrespective of their line of business, SMBs are typically adopting digital technologies across their operations. The Federation of Small Businesses (FSB) reports that UK SMBs are implementing digital technology at record pace, with seven-in-ten introducing innovative changes in the previous three years,² and the proportion that accept cards is rising accordingly – up from 58% to 61% in just two years.³

Its needs are not met, or only poorly met, by acquirers – in the UK, some 39% of SMBs still don't accept card payments⁴ suggesting that, overall, the market has been slow to meet their needs, and there is still significant headroom for growth. Meanwhile, indicating a wider malaise, incumbent acquirers saw a 9% decrease in the number of large enterprise customers in 2023 compared to 2022.⁵



1. UK Department for Business & Trade, Business population estimates for the UK and regions 2023: statistical release, 2023: <https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release>
2. Federation of Small Businesses, The Tech Tonic, 2023: <https://www.fsb.org.uk/resource-report/the-tech-tonic.html>
3. National Enterprise Network, Digital payments boost turnover for UK small businesses, 2023: <https://nationalenterprisenetwork.org/digital-payments-boost-turnover-for-uk-small-businesses/>
4. Visa-commissioned UK research, 2023
5. Visa data for the period 2022-2023

Challengers are outperforming incumbent acquirers across many dimensions

A new breed of specialist, standalone acquirers are targeting SMBs with entry-level propositions, while independent software vendors (ISVs) and payment facilitators (PayFacs) are also offering card acceptance as a part of their SMB-oriented software platforms.

The service they offer differs from the traditional approach to acquiring: with entry-level propositions, such as Tap to Phone, clear pricing schedules, no binding or ongoing contracts, and a quick and simple digital onboarding process.

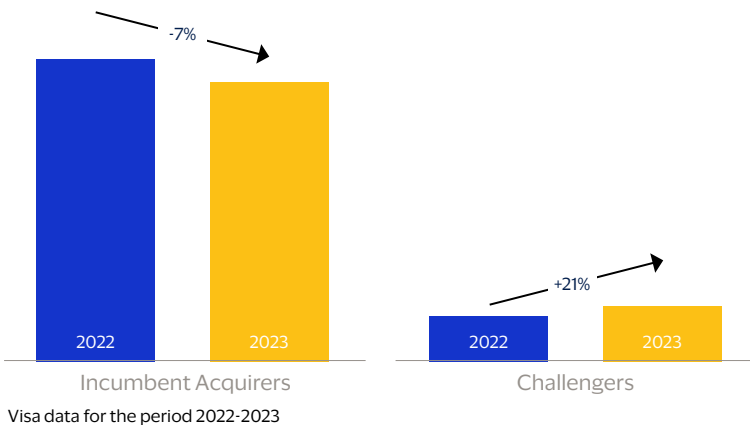


About our analysis and our definitions. To quantify the shifts in the acquiring market, we analysed European Visa data, comparing the performance of a peer group incumbent acquirers to a peer group of challengers.

Incumbents – traditional bank-owned acquirers, in business for over 15 years, they hold most of their payment volume in card present transactions, and benefit from economies of scale and powerful brand recognition. Several have undergone consolidation, including mergers and acquisitions of related players.

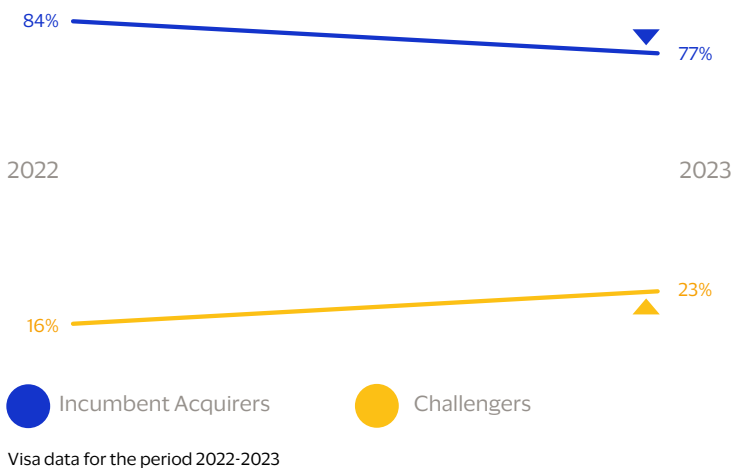
Challengers – newer entrants, including fintechs, payment facilitators and ISVs, which are often privately funded. Their advantages include the ability to deploy digital technology at pace, taking pride in their capacity to disrupt the market.

Challengers are growing: total payment volume is sharply up among challengers – but down for incumbents



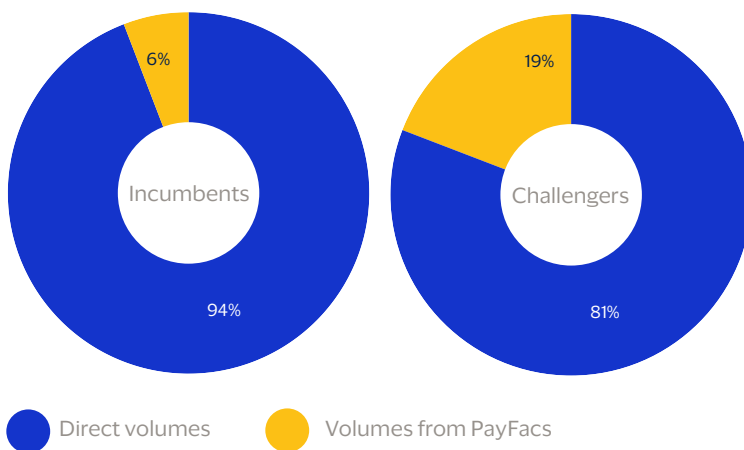
From 2022 to 2023, total payment volume among the challengers rose by 21%, while volume among incumbent acquirers fell by 7%.

The SMB purchase volume is shifting from incumbents to challengers: for incumbents, the share of SMB volumes is declining – for challengers, it is on the increase



The highest growth rates for the challengers came from the small and micro business segments (which grew at 36% and 51% respectively), and their share of SMB payment volume rose from 16 to 23%. Meanwhile, the share of SMB payment volume for incumbent acquirers fell from 84% to 77%.

Challengers are partnering with PayFacs to tap into SMB addressable market: for challengers the proportion of volume that comes through PayFacs is three-times higher than for incumbents



As well as acquiring SMBs directly, the challengers are also succeeding in partnering with ISVs and PayFacs – in 2023, 19% of challenger payment volume came from PayFacs, compared to just 6% for incumbent acquirers.

Of course, some incumbent acquirers may choose to cede the SMB space to the challengers and focus on relationships with larger enterprises. But here, too, the challengers are making headway – with payment volume for incumbent acquirers falling by 5% but increasing by 24% for challengers.

Why respond? And why now? – a strong rationale to compete harder

Given the growth trajectory in the SMB acquiring market, there is an urgency to respond:



To retain existing customer relationships

Across the acquiring sector, churn rates are on the increase.

For incumbent acquirers the typical churn rates ran at between 3% to 7% throughout 2023, following a clear upward trajectory.

Among the challengers, churn was actually higher – at 2% to 14% – which perhaps demonstrates the level of competition between them and their emphasis on the SMB segment, where churn rates are often higher.

3%-7%

For incumbent acquirers the typical churn rates ran at between 3% to 7%



To protect revenues from existing customers

The trend for merchants to seek multiple acquiring relationships is also on the increase, which dilutes revenue-per-merchant.

In 2023, for incumbent acquirers, 19% of merchants had a least one other acquiring relationship. But, for challengers, only 10% of merchants had multiple acquiring relationships – suggesting that challengers deliver a more holistic service and capture a higher proportion of revenue-per-customer.

Similarly, for incumbent acquirers, the number of merchants with a single acquiring relationship grew by 1%. For challengers, the equivalent number was 33% – which again demonstrates an ability to provide a more complete, holistic solution.

10%

For challengers only 10% of merchants had multiple acquiring relationships



To attract new customers

In 2023, the dynamics of customer growth showed a significant shift. Challengers saw a robust increase of 30% in their customer base, while traditional incumbents managed only a 4% rise. To exacerbate the issue, the slight uptick for incumbents came exclusively from micro-businesses (which typically bring in lower volumes and therefore revenues), while all other segments saw a decrease in customer numbers. Meanwhile, challengers saw growth across all customer segments, with particularly strong increases in the small and medium business (51% and 35% growth respectively).

With a wide array of SMB-focused solutions now in the market, today's acquirers are under pressure. They will all be expected to match the convenience and user-friendliness offered by challengers. According to recent UK research, 'access to good digital solutions' has overtaken 'reputation' as a driving factor influencing which acquirer an SMB chooses to work with.⁶

30%

Challengers saw an increase of 30% in their customer base

6. RFI Global, RFI Global release latest findings within UK SME Banking Market, 2023: <https://rfi.global/press-release-rfi-global-reveal-uk-sme-banking-market-trends-and-data-at-briefing-in-central-london/>

To succeed in the SMB space, acquirers should focus across two key areas

There are definite opportunities to succeed in the SMB space. To outperform the market, acquirers need to excel across two dimensions – a high-quality customer experience, and an SMB-relevant proposition.

Key area #1. Deliver an SMB-ready customer experience



Seamless digital onboarding

Challengers pride themselves on the speed and elegance of their digital-first onboarding process. Visa analysis demonstrates that the highest-performing players have as few as eight steps in their online process flow, which can be completed in as little as one minute.⁷ By contrast, incumbent acquirers can have more than 20 steps in their equivalent flows – which, in some cases, are simply the online equivalents of traditional paper forms – and the process may not be concluded for several days.⁸



Speedy settlement

Cashflow is a prime consideration for many SMBs and a common expectation is for same-day settlement – in recent Visa research, 82% of UK SMBs said same-day settlement would be a relevant feature.⁹ While many challengers meet this challenge, at least three working days continues to be typical for many incumbent acquirers.¹⁰



Always-on, multi-channel customer support

The speed and quality of customer support is critical for SMBs. If they have an issue, they need it settled quickly, want to choose from several customer support channels, and demand 24x7 cover. In recent pan-European Visa research, 48% of SMBs said they would expect to be able to speak to a representative over the phone, with 44% expecting to talk to one via in-app instant chat.¹¹ By contrast, some incumbent acquirers only offer office-hours telephone support.



Simple, competitive pricing

For SMBs, traditional acquiring contracts and pricing schedules can be too complex, too expensive, and require too much long-term commitment. In Visa research the main reasons cited among SMBs for not accepting cards were related to cost and commitment – with 54% saying the ongoing costs are too expensive, 49% saying the upfront costs are too high, and 34% saying the fees are too complicated. The challengers are affectively overcoming these objections and addressing misconceptions with simple, attractive pricing, no-upfront costs, and no-commitment contracts.

7 Visa Consulting & Analytics, How to create a standout digital onboarding process for SMBs, 2023: [https://navigate.visa.com/\\$/v/5/cemea/m/x/u/86866639-b0a1-4eea-afad-5a7c01440fe1.pdf](https://navigate.visa.com/$/v/5/cemea/m/x/u/86866639-b0a1-4eea-afad-5a7c01440fe1.pdf)

8 Visa Consulting & Analytics, How to create a standout digital onboarding process for SMBs, 2023: [https://navigate.visa.com/\\$/v/5/cemea/m/x/u/86866639-b0a1-4eea-afad-5a7c01440fe1.pdf](https://navigate.visa.com/$/v/5/cemea/m/x/u/86866639-b0a1-4eea-afad-5a7c01440fe1.pdf)

9 Visa-commissioned UK research, 2023

10 Payment Brain, Merchant Account Settlement Periods: <https://www.paymentbrain.co.uk/settlement-periods>

11 Visa-commissioned European research, 2023

Key area #2. Provide SMB-relevant propositions

Super-simplicity

Some existing propositions **are too complex**

For many SMBs, propositions don't just have to be simple – they must be super-simple. Even some of the new sector-specific terminals and solutions (such as those intended for the hospitality trade, which integrate with their software platforms) can be seen as unnecessarily complex and difficult to understand.

It's important for acquirers to consider a simple 'basic' proposition that allows merchants to accept payments without significant set up, lead times, or lengthy contracts.

All inclusive

Some existing propositions **are too narrow**

Many SMBs would prefer to work with a one-stop-shop acquirer which helps them accept a variety of payment methods across a range of channels – yet propositions from some acquirers only cover card-present payments, whilst others only cover card-not-present payments, not both.

Among UK-based SMBs that already accept cards, 53% have more than one payment provider – perhaps one for face-to-face payments and another for e-commerce – and 16% have four or more. Yet more than half said they were looking for a payment solution that includes all the functionalities in the same place. The leading reason that could entice SMBs to change their provider is because they want more ways to accept payments – cited by 36%.¹²

Minimal up-front investment

Some existing propositions **require too much of an up-front investment**

A sizeable proportion of SMBs want a simple solution, with low costs, that doesn't require additional equipment or hardware – suggesting that the emergence of Tap to Phone solutions (see below) will be a major driver for growth in card acceptance.

In Visa-commissioned European research, 59% of merchants said they would sign-up to Tap to Phone – with particularly high levels of interest among SMBs (73%), hospitality merchants (67%), and other B2C merchants (63%).

A suite of value-added services

Some existing propositions **need additional services**

A motivating factor for many SMBs is access to a range of value-added services to help them run and grow their business. This is an area where many incumbent acquirers have strong credentials and are well-placed to provide easy access to a range of complementary solutions – for example, in data and analytics, dynamic currency conversion, tax refunds on international transactions, working capital financing, basic fraud prevention tools, and so on.

A quick introduction to Tap to Phone

Tap to Phone – sometimes known as softpos – is a software-based solution that turns a standard smartphone or tablet into a digital POS device. It runs on current-generation Android and iOS devices and uses the onboard NFC capabilities to accept contactless payments – with no need for a separate card reader or PIN-entry device.

All an SMB needs to do is download a Tap to Phone app, and they are ready to start accepting card present payments. So, it's a great way for acquirers to extend card acceptance, at scale, to SMBs, especially those who operate away from their premises – like plumbers, gardeners, and carers.

Acquirers and payment service providers can build their own Tap to Phone app or choose from a wide range of readymade solutions.

¹² Visa-commissioned UK research, 2023



How Visa Consulting & Analytics can help

Visa Consulting & Analytics can help in several ways, connecting our acquiring, digital, SMB, and data science experts with your internal teams. Also, a range of data-driven, customer-focused solutions are available to help you optimise your approach to SMB acquiring:

Pinpointing a large and profitable market niche

Using our data and market insights to analyse the size and dynamics of the market, your competitive strengths and vulnerabilities within it, headroom within the SMB space, and your opportunities for growth.

Delivering a best-in-class onboarding process

Conducting a current state review and gap analysis, designing a new digital onboarding journey, mocking up screens and interfaces, identifying vendors, and providing implementation support and analysis.

Creating a differentiated value proposition

Co-creating additional value propositions – such as Tap to Phone – including strategic planning, proposition development, UX design, customer service model, and implementation support.

Providing a clear list of ongoing growth opportunities

Using our data to assess your performance against the wider market and identify verticals where you can broaden or deepen your growth.

For help addressing any of the ideas or imperatives above, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@visa.com

You can also visit us at [Visa.com/vca](https://www.visa.com/vca)

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