



Visa Small Business | 3Q16 Report | December 2016

# Spend Insights

*“Although card acceptance is growing among all small businesses, data shows it’s growing more rapidly among those with lower revenue. Efforts to educate this audience may be paying off as it seems they are beginning to realize the benefits and importance of cards — a sign that financial institutions may want to maintain or even increase these efforts.”*

— Janet Zablock, Head of Global Small Business, Visa Inc.

## Findings at a glance

### Card acceptance

Business size seems to be related to card acceptance. According to responses, businesses with <\$500K are adopting card acceptance faster than those with \$500K–\$1M in revenue.

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### Adjusting for growth

Changing outlooks on revenue and profit may be causing businesses to hold off on key expenses like capital investments, employee pay and inventory.

[Read more >](#)

### Acquiring new customers

Added focus on marketing appears to be paying off for many small business owners as their responses show growing optimism about marketing effectiveness and attracting new customers.

[Read more >](#)

### Loan demand decrease

Several signals — including improved outlooks on cash flow — point to a potential dip in small business owners’ needs to borrow money.

[Read more >](#)

### Macroeconomic impact: 3Q16 concerns

Since 3Q13, consumer confidence and inflation have consistently ranked as small business owners’ #1 or #2 macroeconomic concerns, although it’s not always clear how these feelings affect business decisions. This quarter however, it seems these concerns may be compounded by fears of stagnant revenue and profits, leading owners to dial back key expenses. See [page 3](#) for more.

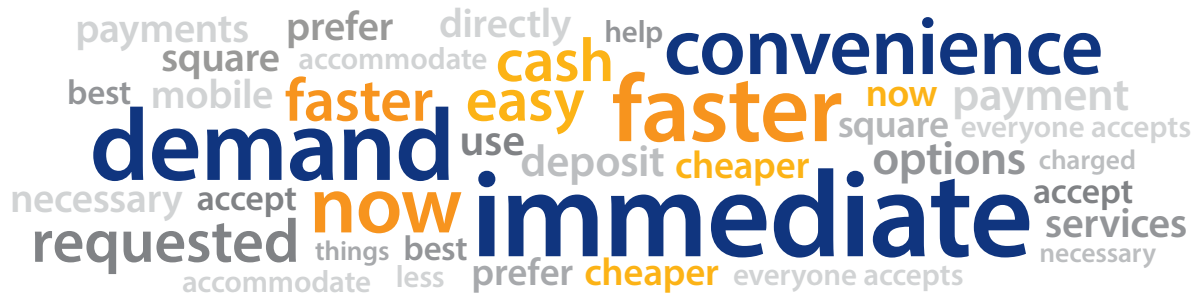
Card acceptance

# Business revenue may impact card acceptance

Credit and debit acceptance has spiked in the past year driven by speed, ease of use and customer demand. However, acceptance rates for the past 12 months compared to overall acceptance rates show lower-revenue small businesses are adopting cards increasingly faster than others.

### Key drivers of card acceptance

When asked why they accept credit and debit cards, small business owners' top responses centered around speed and convenience, but also cited customer demand.<sup>1</sup>



*"By accepting credit cards, payments are automatically deposited into my account, that way I don't have to make a trip to the bank."*

— Tourism/entertainment

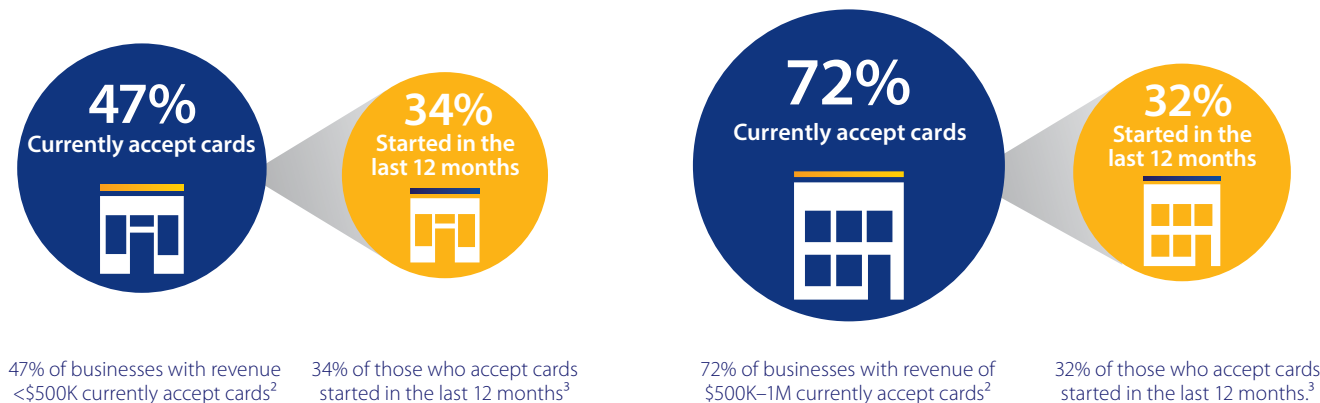


### Spend Insight

As card acceptance increases, so does card usage. For the period ending 3Q16, Visa sales volume increased by 12.1% compared to 11.0% in 2Q16 driven by more transactions and higher average ticket.

### Growth in card acceptance is fastest among lower-revenue businesses

Although card acceptance is significantly higher among businesses with \$500K–\$1M in revenue, growth has recently been faster among businesses with revenue of less than \$500K. Speed and convenience were cited as key drivers, meaning banks' efforts to promote these benefits could be having the desired impact.



<sup>1</sup> Why have you started accepting credit/debit cards?  
<sup>2</sup> Please indicate which payment methods your company accepts for purchases and payments from customers.  
<sup>3</sup> Which payment methods have you started accepting in the past 12 months?

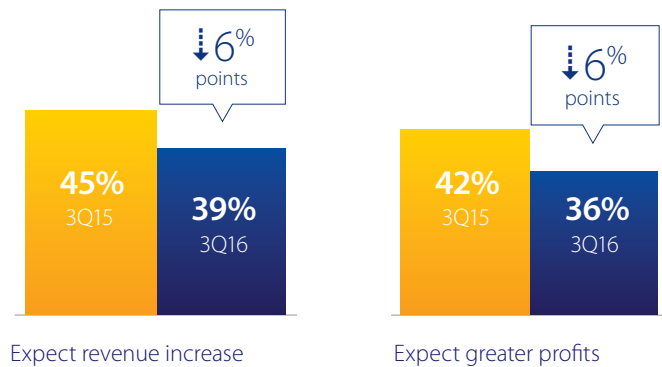
Adjusting for growth

## Declining optimism about economic growth may be impacting business decisions

Small business owners expect slow revenue and profit growth in the next six months. This appears to be tied to continuing concerns about economic factors beyond their control, such as consumer confidence and inflation. Anxiety about the economy could be why business owners say they're less likely to increase spending in key areas like inventory and capital investment.

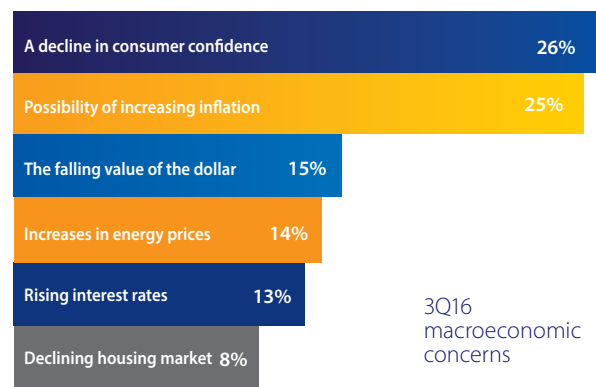
### Fewer expecting revenue and profit increases

Significantly fewer small business owners expect their revenue and profit to go up.<sup>4</sup>



### Top concerns unchanged from a year ago

In 3Q16, consumer confidence and inflation were clearly small business owners' top macroeconomic concerns — just as they were a year ago in 3Q15.<sup>5</sup>



*"Several factors seem to be driving down consumer confidence and therefore hurting the economy."*

— Lobbyist



### Spend Insight

Growth in Visa transaction volume in categories associated with recruiting new employees (like hiring agencies) has started to slow down. Year-over-year spend growth within this category went from 8.9% in 1Q16 to 8.4% in 2Q16 to 7.6% this quarter.

### Fewer expect to increase spending

Significantly fewer small business owners expect to increase spending on capital investments, employee pay and inventory.<sup>4</sup>



Will make capital investments



Will increase employee pay



Will increase inventory

<sup>4</sup> Thinking of the business in which you are an owner, part-owner, partner or the financial decision maker please tell me how likely each of the following is to occur?

<sup>5</sup> What major issue facing the economy most concerns you as a small business owner?

Acquiring new customers

## Responses show increased confidence in attracting new customers

Business owners report they've increased their focus on marketing and advertising, and they also say those efforts have been more effective. Both factors could be helping to improve small business owners' outlook on bringing in new business, although this trend is worth watching as we move into 2017. It's also possible that increased card acceptance is contributing to the positive outlook for attracting new customers — as card payments offer both speed and convenience.

### Focus is shifting to marketing

When asked what they're doing differently in the past six months, more respondents cited marketing and advertising than any other aspect of their business.<sup>6</sup>



*"We've recently started investing more money in advertising to attract new customers."*

— Industrial design

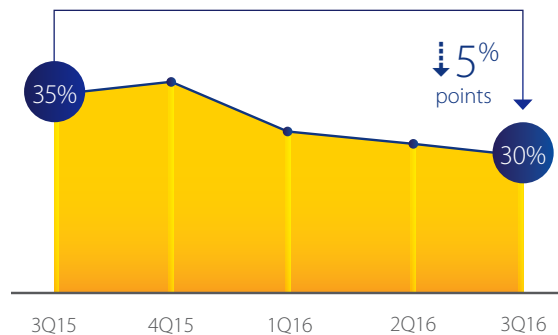


### Spend Insight

Advertising spend increased by more than \$1.2 million or 22% over the past 12 months. This is the second largest spend volume increase outside of retail and wholesale club spend.

### Greater satisfaction with online marketing

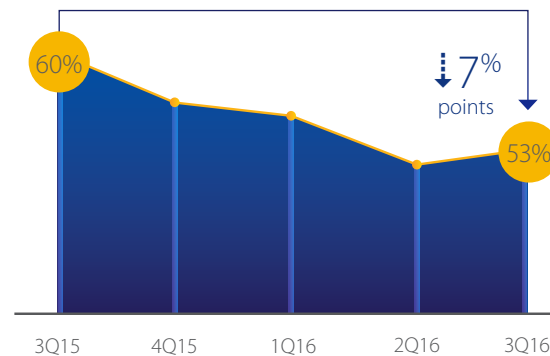
Significantly fewer small business owners cite online marketing effectiveness as a critical or major business concern.<sup>7</sup>



Marketing effectiveness concern

### Decreased anxiety about bringing in new business

Despite a recent uptick, anxiety about bringing in new business is down significantly compared to a year ago.<sup>7</sup>



Attracting new business concern

<sup>6</sup> What are you doing differently?

<sup>7</sup> Now we would like to ask you about concerns that other small business people have mentioned. For each one, please indicate whether this is a critical concern, a major concern, a minor concern or no concern at all to your business.

Loan demand decrease

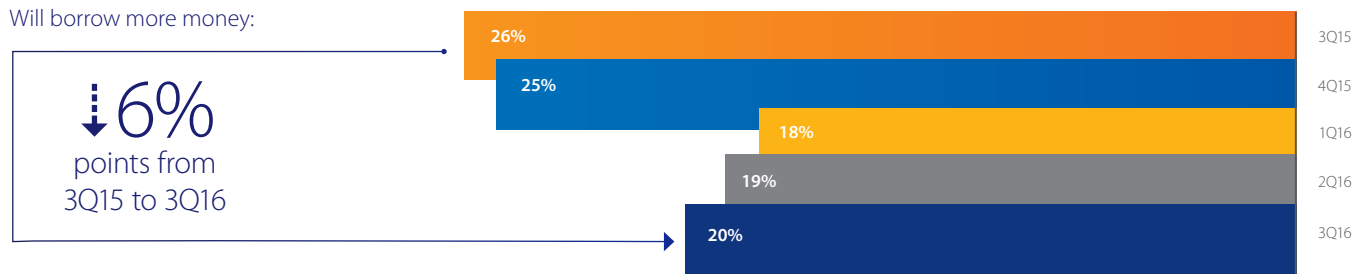
## Plans to borrow less may be tied to cash flow management

Responses indicate a decrease in plans to borrow more money, possibly due to small business owners' confidence in running their businesses effectively. Compared to a year ago, responses also show greater satisfaction with cash flow and collections efforts. Along with plans to limit capital investments, these shifts signal a potential decrease in loan demand that financial institutions may want to consider in their small business marketing strategies.

### Decrease in plans to borrow more money

The number of small business owners who expect to borrow more money in the next six months is down significantly compared to a year ago.<sup>4</sup>

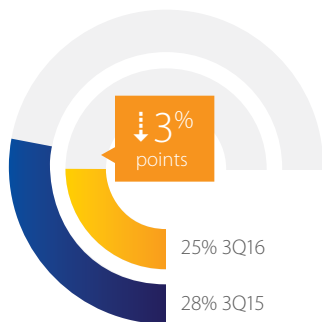
Will borrow more money:



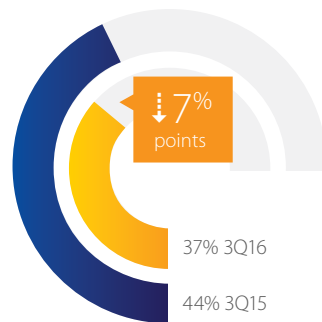
### Responses cite optimism around cash flow

Compared to 3Q15, small business owners not only feel better about their ability to collect on accounts receivable, but they also feel better about managing their cash flow overall.<sup>4,7</sup>

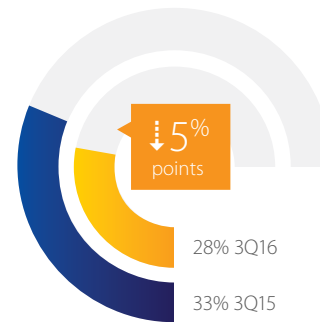
Significantly fewer small business owners plan to make capital investments, which could be contributing to the decline in plans to borrow money.<sup>4</sup>



Will have greater difficulty with collections



Cash flow is a critical or major concern



Will make capital investments

*"With our current systems, we are able to select and make payments without concern for cash flow."*

— Hotel



Spend Insight

Year-over-year spend on small capital investments grew 14.5% in 3Q16, which indicates that any plans to scale back may pertain to larger investments.

<sup>4</sup> Thinking of the business in which you are an owner, part owner, partner or the financial decision maker please tell me how likely each of the following is to occur?

<sup>7</sup> Now we would like to ask you about concerns that other small business people have mentioned. For each one, please indicate whether this is a critical concern, a major concern, a minor concern or no concern at all to your business.



**Small business resources**

Small businesses that seek solutions to help manage their business can turn to Visa Business for support. For information about Visa’s small business solutions, visit [visa.com/business](http://visa.com/business)

**About Spend Insights methodology**

Visa Small Business Spend Insights monitors the economic confidence of small business owners by cross-referencing actual behavior spend data with responses to a quarterly survey exclusively commissioned from TNS by Visa. This study of businesses with \$50,000–\$25,000,000 in annual revenue was based on small business survey data from April 2007 through September 2016 and also consists of 600 interviews conducted between September 6-16, 2016.

**NOTE:** This survey is in no way meant to represent or reflect the true nature of the economy. Rather, it is presented as an additional data set meant to help the reader gather information and develop an informed conclusion.

