

SME Economic Opportunity in the Face of Inflation: Embracing Omnichannel Solutions



By Paul Disselkoen, Senior Associate, PayPal Public Affairs & Strategic Research

The onset of the pandemic led to a tremendous shift to digital commerce. People were already beginning to trend towards a more digital life, but the pandemic was a catalyzing event that prompted explosive growth in digital adoption. Small businesses, likewise, adapted to the shifting landscape and began integrating more digital tools into their operations.

Research conducted by PayPal has demonstrated that those SMBs that were able to adopt digital tools not only had greater resilience in the face of harsh economic conditions, but in fact grew their sales. Digital small businesses experienced 25% growth in Q2 of 2020 while the economy as a whole declined by 9% over the same period.¹

Now, small businesses are facing a new economic crisis. Rising inflation in the U.S. and around the world has greatly impacted prices. Consumer prices rose by 9.1% in June.² About 40% of U.S. small businesses intend to raise prices by 10% or more to account for inflation.³

These rising prices are, in turn, beginning to impact the sentiment of consumers and merchants as well. The AP reported last week that U.S. consumer confidence slipped to its lowest level in 16 months, the second straight month of decline.⁴ A U.S. Chamber of Commerce survey found 44% of small businesses cite inflation as their biggest concern.⁵

The challenge of inflation is also a problem for creating an inclusive economy. Minority communities often experience inflation more acutely. Bank of America research found that African American and Hispanic households experience spending shock from higher inflation at a rate of 4% compared to 2.9% for all others. Rural areas are also hit harder by rising prices due to differences in expenditures and lower incomes.⁶

Small businesses will need to look for ways to absorb the economic shock created by inflation. Consequently, it will be imperative for the public and private sector to ensure that entrepreneurs of all sizes and backgrounds have the tools needed to succeed. In the current environment, one such strategy for small businesses to leverage to brace against these economic headwinds is omnichannel solutions which lower costs, enable retention of existing customers, and open markets to find new customers in order to keep sales at a steady volume.

Inflation is hitting small businesses just as it is hitting consumers, with inputs and services costing more than before. Since consumers will be more price sensitive, small businesses need to adopt more efficient methods to reduce costs and, in turn, keep their prices steady. Merchant payments received through [Venmo](#), for instance, only cost 1.9% plus 10 cents whereas most credit card fees are around 2.5%.^{7,8}

Combining in-person and online commerce gives small businesses the opportunity to meet their customers where they are as economic conditions impact communities differently. An omnichannel strategy is also key to serving a small businesses' existing customers. Research has shown that a multi-channel approach can lead to a 91% higher YOY customer retention rate⁹ and customers tend to spend more when a business offers multiple options.¹⁰

This also helps to bolster sales within their local community. Another trend of the pandemic is that alternate payment methods, like digital wallets and [QR codes](#), are rapidly becoming the new standard. 49% of consumers want touch-free and contactless payments post-pandemic.¹¹ In the early days of the pandemic, consumers prioritized spending at local small businesses to support their community and as inflation impacts the economy at every level, we could very well see a similar trend take place. Having these options for [in-person checkout](#) will be one tool in the tool-bag for SMBs to maximize checkout. This can also help the local economy; as inflation rises, research has demonstrated that local retailers tend to spend more revenue in their local community.¹²

However, not all localities will be impacted the same by inflation. While consumer spending in some locales will naturally contract, there are other areas across the country and around the world that will be impacted to a lesser degree, creating opportunities to target markets in other regions to make up for some of those lost sales. A digital presence and ecommerce experience enables entrepreneurs to reach new customers outside of their local community. Through PayPal, small businesses can reach 429 million active accounts in over 200 markets around the world.

Omnichannel solutions also provide more inclusive economic opportunity for entrepreneurs traditionally marginalized to reach global markets. PayPal research found that women-owned SMBs on PayPal were just as likely to be engaged in cross-border trade as their male counterparts. And those businesses that were selling globally were experiencing higher growth and survivability rates.¹³ Having access to the 429 million active accounts in 200 markets around the world gives small businesses a diverse range of options to help recoup sales deficits in other channels.

The last piece of omnichannel integration that will be critical for the overall health of small businesses enduring an economic downturn is better management of their financial lives. Adopting different sales channels should not lead to each channel operating in a silo. Rather, each channel needs to be interconnected. Omnichannel payments data allows for better understanding of customers and trends across markets. For example, with PayPal, you can take aggregated data from across channels and port it into a reporting tool for a more holistic view of how customers are shopping and paying. All in-person and online sales can be easily viewed and managed through a business's PayPal business account, and businesses will have access to their funds typically within one day.

While these digital tools can provide greater resilience, equity and opportunity for small businesses around the world, it is also imperative that the public and private sector continue to work together to ensure awareness and access. The last two years have been a positive example of an intentional prioritization of small business support. It will be critical to engage community partners to reach into areas that may struggle to access resources and ensure underserved communities are reaching their global potential. SMEs often lack the skills, finances and employees to realize the potential of digitization.

The global economy is grappling with formidable inflationary challenges, the likes of which haven't been seen in decades. These macroeconomic pressures have created an inflection point for small business owners, much like in the early days of the pandemic. Back then, creative and innovative small business owners were able to thrive by adapting to the changing economic environment by incorporating digital technology into their business, and the same is true now. With an omnichannel solution, entrepreneurs can lower their costs through digitization, improve engagement with existing customers and, with their expanded digital presence, serve the needs of their customers in their local neighborhood – as well as those customers on to the other side of the world – through enhanced optionality and choice.

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