

SME Economic Support in the Face of Inflation:

Payment Options & Discounts



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The [last two essays in this series](#) explored various strategies and support systems for small and medium enterprises (SMEs) in the face of inflationary pressures that public and private sector partners should prioritize to ensure SME resilience. Entrepreneurs continue to be impacted by rising inflation through supply chain issues, rising costs and capital uncertainty. These economic conditions also impact the very consumers that SMEs need to continue spending.

2022 has seen major price spikes in everyday goods such as food, gas, and several other items across the economy. While there are encouraging signs that inflation is easing,ⁱ prices are still high, and the effects are being felt by small businesses. A recent PMNTS survey found that two-thirds of businesses expect a recession in 2023ⁱⁱ and a survey from Goldman Sachs found 97% of small business owners say inflationary pressure is the same or worse than it was in the second quarter of 2022.ⁱⁱⁱ SMEs are hesitant to pass rising costs onto their consumers through price increases.^{iv} Inflationary pressure is also causing revenue-specific challenges, as 38% of SMEs report a decline in customer demand due to price increases to offset the rising costs of everyday goods.^v

Entrepreneurs must think through new ways to attract and retain customers to ensure they can maintain, or even grow, their businesses during this volatile time. A recent survey from NJBIA found 84% of Americans worry about the impacts of inflation this year^{vi} while Deloitte found that 73% expect higher prices for the holiday season.^{vii} Consumer sentiment will impact the way in which they spend which will require new strategies for SMEs to enhance their payment optionality and promote discounts for customers.

There have been numerous innovations in payment options that SMEs need to explore and potentially implement to help increase their sales. One option growing in popularity, Buy Now Pay Later (BNPL) solutions, can be integrated into the online checkout process to enable customers the ability to stretch their wallets and better manage how they pay for a variety of purchases. BNPL usage in the U.S. grew more than 970% from 2019 to 2021.^{viii} Recent research from PYMNTs found that 41% of small businesses saw an increase in sales after offering BNPL and 30% saw a higher online sales conversion rate.^{ix}

Responsibly designed products offering no interest or late fees, like [PayPal's Pay in 4](#), can add value for both the SME and the consumer. Offering this option at checkout can help increase those conversion rates, build loyalty and instill confidence in the entrepreneur that they are still managing cashflow.

At the core, payment flexibility and choice are the best ways to meet consumers where they are in terms of their financial position and their preferences. For instance, being able to checkout on PayPal with crypto provides another option for consumers that is a seamless conversion to fiat cash for SMEs. It is also beneficial for SMEs to leverage partners that link various digital tools, such as the recent announcement between PayPal and Apple, so the integration of as many digital checkout options is as smooth as possible and allow consumers to fully leverage their preferred payment method.

Another strategy SMEs can use to set themselves apart is provide discounts, offers, or deals that are unique to their business. A recent survey found that over half of Americans look for coupons at least once a week and follow couponing social media accounts.^x This consumer habit makes digital coupons an effective tool for online SMEs that creates greater confidence that their shoppers are getting the best deal. As consumers continue to transact digitally, the adoption of these, "deal tech" solutions can build confidence and promote spending. Juniper Research recently estimated digital coupon redemptions would top \$91 billion by the end of 2022.^{xi} While inflation continues to put financial pressure on the consumer, offering digital coupons has been shown to increase transaction values and checkout conversions.^{xii} Half of the shoppers that have increased coupon usage in the past year have done so because of financial struggles.^{xiii}

Digital coupons are also an excellent way to develop loyalty among their customers. The data SMEs gather from sales that include digital coupons allow them to better understand consumer-right pricing which helps them refine their sales strategy. New offerings also help small businesses reach new customers through browser extensions like [PayPal Honey](#) which automatically searches for and applies discount codes at checkout as well as allows them to earn other incentives such as cash back and shopping credits.^{xiv} Survey results found 92% of consumers who used a coupon for an online transaction indicated the coupon led them to try a new brand, purchase more or purchase sooner than they would have otherwise.^{xv}

As inflation continues to put pressure on both small businesses and consumers, it is important that the private sector develop responsible products that create a halo effect for struggling merchants and communities that are transparent and fair. There is also a role that the public sector can play in subsidizing the deployment of digital offers that can spike consumer spending and support small businesses. We know the

deployment of stimulus checks in the wake of COVID spurred an increase in consumer spending.^{xvi} The National Bureau of Economic Research recently updated a study on the effects small value digital coupons, with a short time limit, had on consumer spending and the economy overall, finding that these tools increased spending in the immediate term but also led to more out-of-pocket spending overall.^{xvii} This impact goes beyond the immediate effect on the consumers' wallet but showcases a direct effect on consumer confidence and economic recovery overall. Public and private sector can work together to support SMBs in adopting these methods to build resilience in the face of uncertain economic conditions. Integrating these digital offerings for small businesses in underserved communities will help lift up these communities. It is incumbent on the public and private sector to support and help these entrepreneurs fortify their business with resilience and strength through tough economic times.

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