



**5 small business
software trends
payment providers
need to know**





Stay ahead of SMB preferences

You can tell an awful lot about a business by its tech stack. The decisions SMBs make regarding their digital tools reveal crucial insights into their day-to-day operations and what they value most when assessing potential providers.

If you're a payment provider looking to gain and retain market share in 2023, a thorough understanding of how SMBs use, manage, and evaluate their digital tools is crucial, particularly amidst the challenging economic backdrop.

That's why we teamed up with independent research agency, YouGov, to survey hundreds of business leaders at micro, small, and mid-sized US companies. We then combined this data with third-party research to identify the main SMB software trends payment providers need to know.

Dive deeper into our findings and the opportunities they present below.

1

Payment software is second only to accounting software in its adoption by SMBs

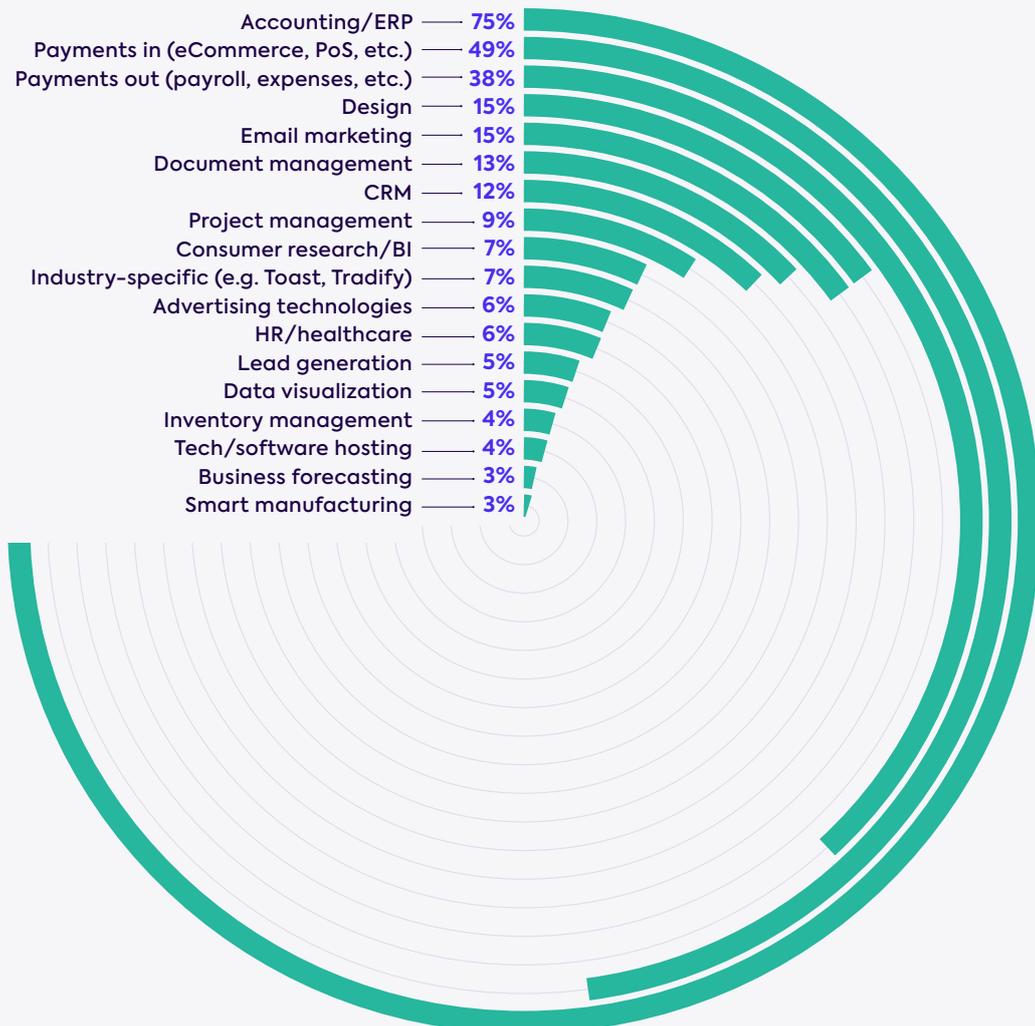
Around 49% of surveyed SMBs use specialized digital tools to manage incoming payments—including eCommerce, PoS, billing/invoices, and accounts receivable (AR) platforms. This makes software for incoming payments the second most commonly used overall, preceded only by accounting and ERP platforms (75%).

In addition, 34% of SMBs consider their payment system critical to their business. And this increases substantially among B2C companies. This is because B2C organizations

are considerably more likely to automate incoming payment processes to satisfy customer demand for frictionless card payments and digital transactions.

Our findings also show that SMBs acquire financial software in a particular order and that this order indicates the relative value to the business. So, for example, as a company grows, it's likely to purchase accounting software first, followed by software for incoming and outgoing payments.

% OF SMBS USING DIFFERENT SOFTWARE TYPES



2

The SMB market is ripe for the adoption of digital payments

In the last few years, we've experienced the accelerated growth of contactless payments and eCommerce. This societal shift has revealed a strong appetite and need for tools to manage digital payments among SMBs.

Data from the OECD found that almost 1 in 4 small businesses now use eCommerce platforms to receive orders. Australia leads by a significant margin in the proportion of goods or services sold via computers, accounting for 56% of total sales,

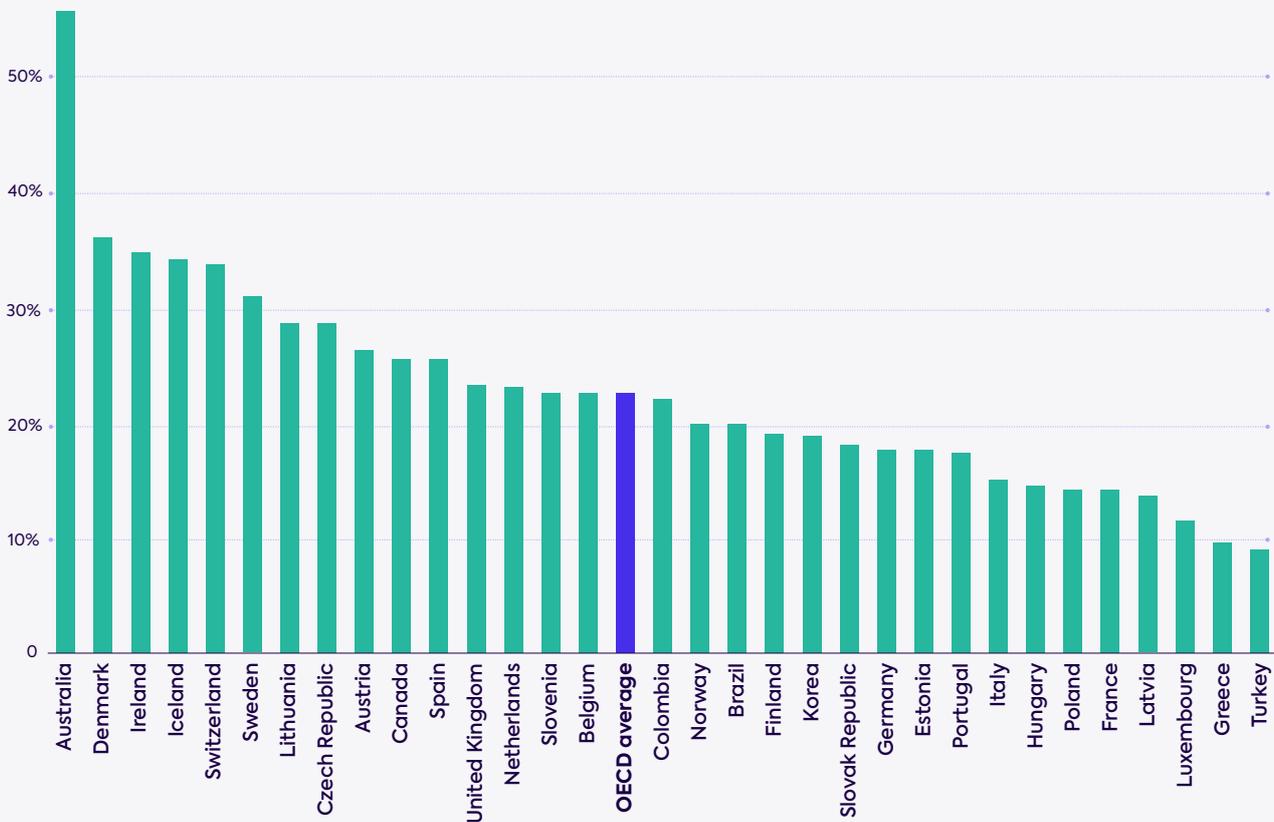
followed by Denmark (36%) and Ireland (34%).

The strong growth of digital payments is expected to continue, with global eCommerce volumes projected to increase **by 12 to 15 percent a year to 2025**. The growing share of SMBs receptive to digital channels, particularly in fast-growing markets, presents a significant opportunity for payment providers looking to capture untapped potential through geographical expansion.



Want to dive deeper into the small business landscape across different territories? Check out [Codat's global guide to the SMB market](#)

SMB ECOMMERCE PLATFORM ADOPTION BY COUNTRY



Source: OECD SME and Entrepreneurship Outlook 2021

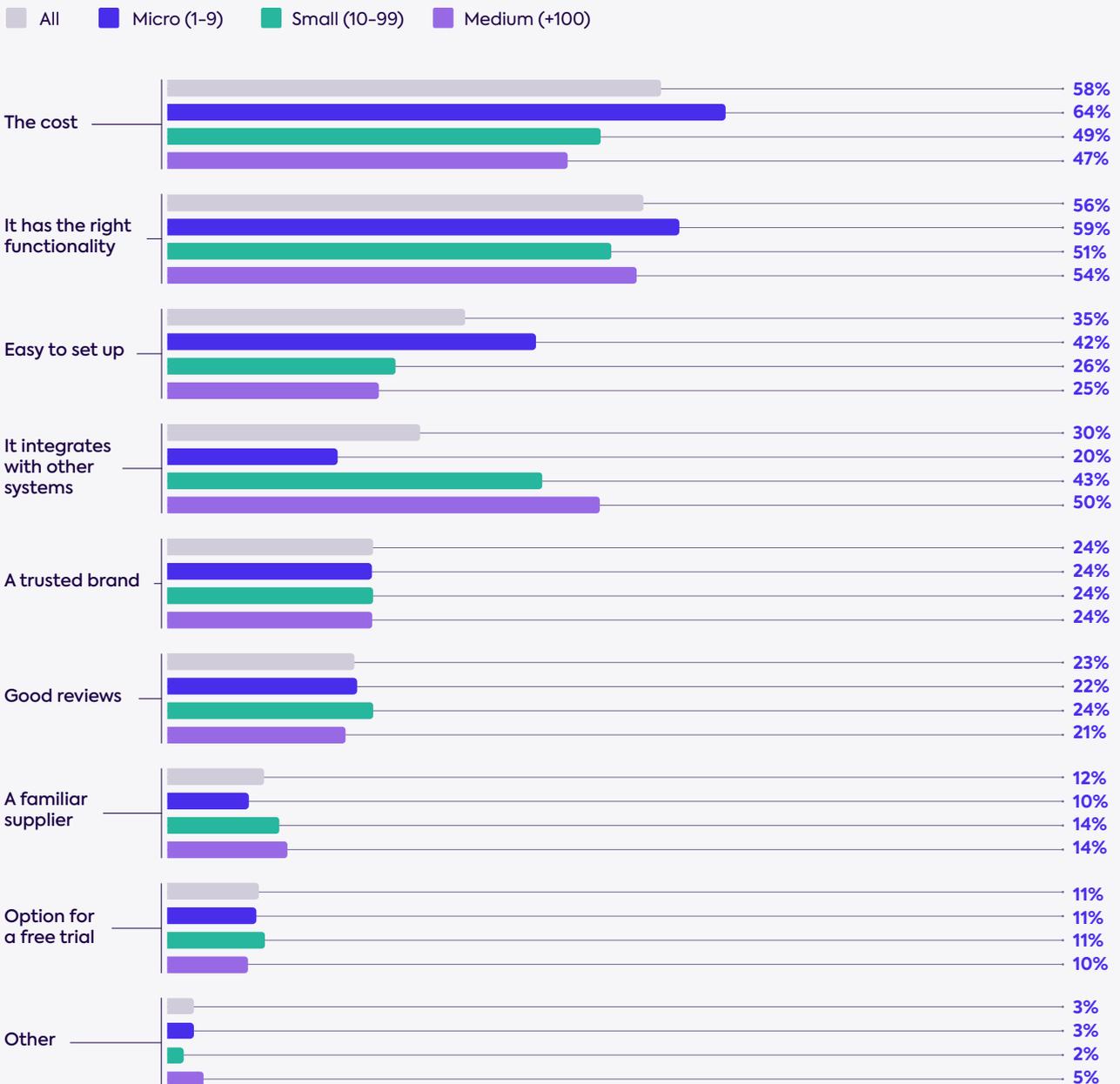
3

SMB purchase drivers differ depending on business size

When it comes to the factors driving SMB software purchase decisions, cost, and functionality are unsurprisingly the most important. But beyond this, there's notable divergence in priorities depending on the business size.

SMB SOFTWARE PURCHASE DRIVERS

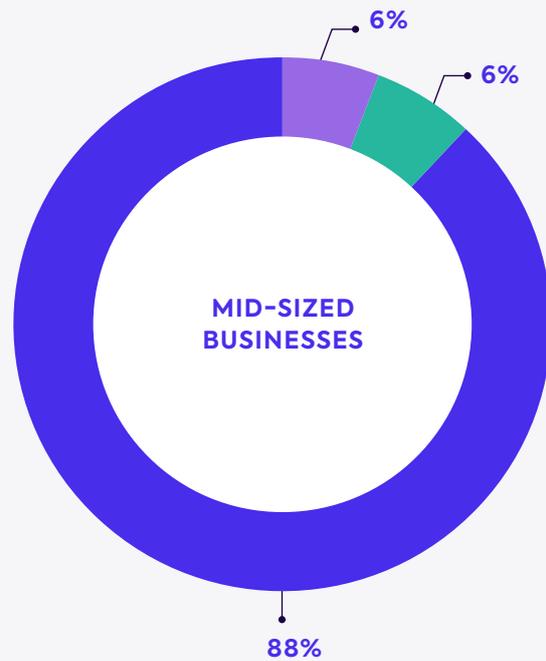
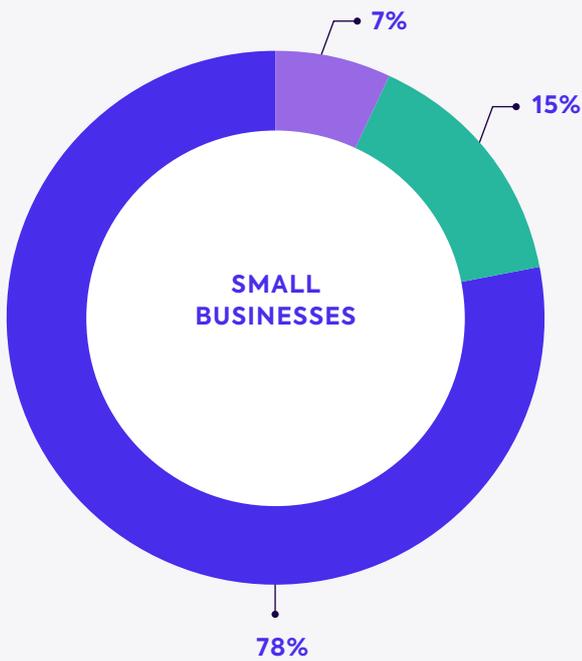
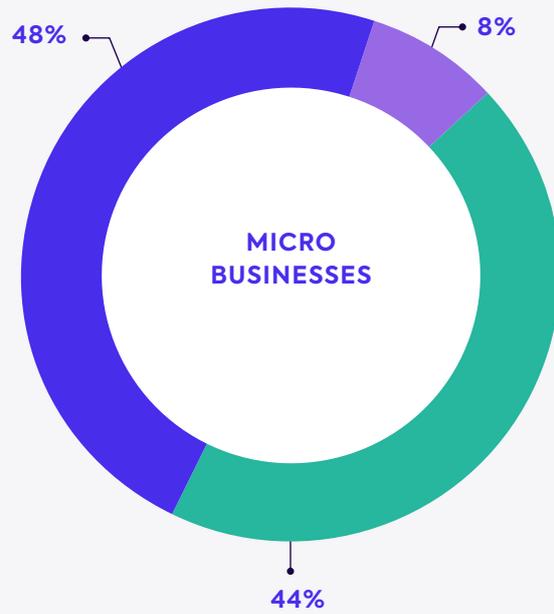
Top three drivers of purchase decisions by company size



HOW BUSINESSES VALUE INTEGRATIONS BY BUSINESS SIZE

Top three drivers of purchase decisions by company size

- Very/fairly important
- Not very/not at all important
- Don't know



For micro businesses (1-9 employees), the ease of setup is of greater importance than it is for businesses with 10+ employees. Whereas, we found small businesses (10-99 employees and medium-sized businesses (+100 employees) were significantly more likely to value integrations when assessing a new tech platform. For these businesses, interoperability was the third-highest purchase driver for their tech stack after cost and functionality.

4

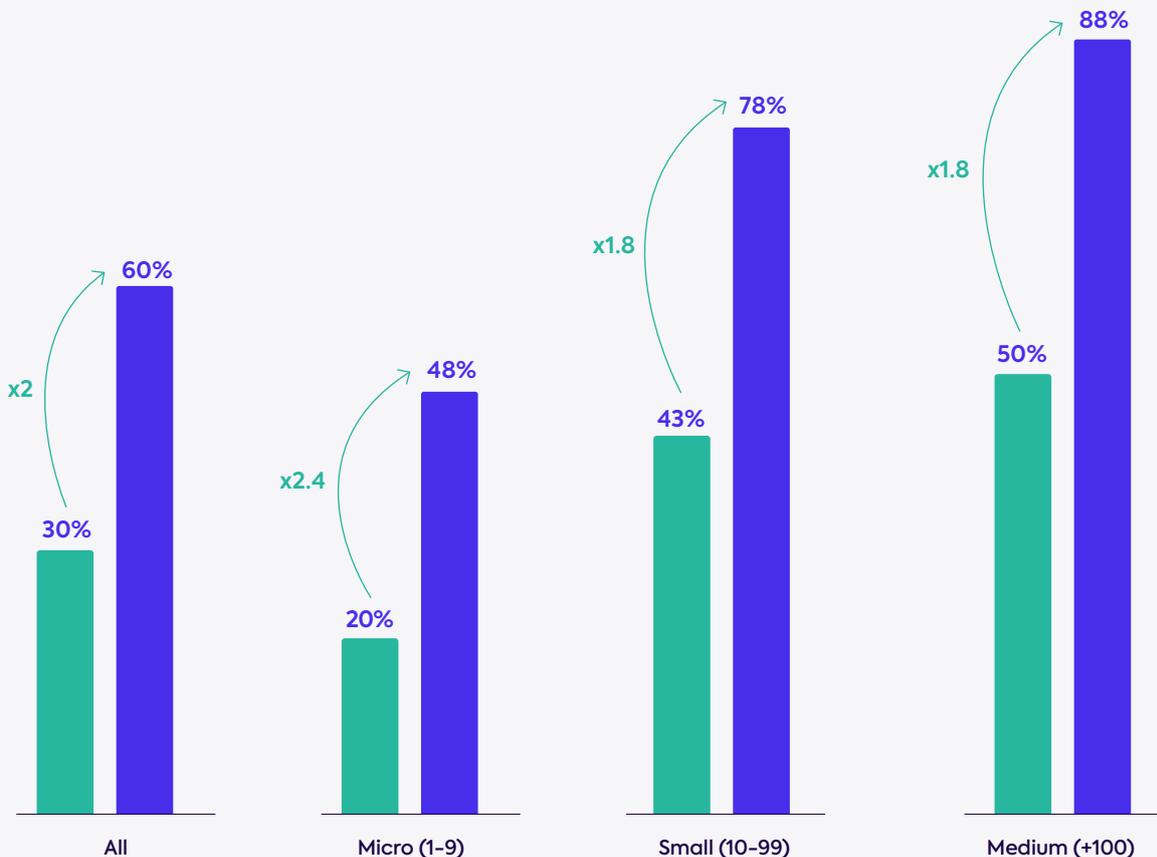
60% of SMBs consider connectivity essential when making purchasing decisions

Our research shows that demand from SMBs to buy integrated systems is expected to become a much bigger driver of their purchase decisions in the coming years.

A third (30%) of SMBs cited 'how systems integrate' as a top-tier purchase driver, with larger providers demonstrating greater awareness of the need for integrations. However, after explaining their potential, 60% agreed that integrations would be an important part of the purchase decision going forward, with the most significant increase observed among micro businesses (x2.4).

HOW SMBS VALUE INTEGRATIONS BY BUSINESS SIZE

- Agree integrations are important
- Agree integrations are important after explanation



5

40% of SMBs are changing their tech stack to adapt to the current economic climate

Today's business landscape has had a very real impact on how SMBs think about digital solutions. In total, 40% of surveyed SMBs say the current environment has impacted how they use and manage software, with one in two having made changes to their tech stack.

SMBs with revenue over \$1 million are particularly impacted, of which 64% have altered their tech stack. SMBs with 10+ employees were also twice as likely to make changes to their software than micro businesses.

However, these changes have more to do with saving time than saving money,

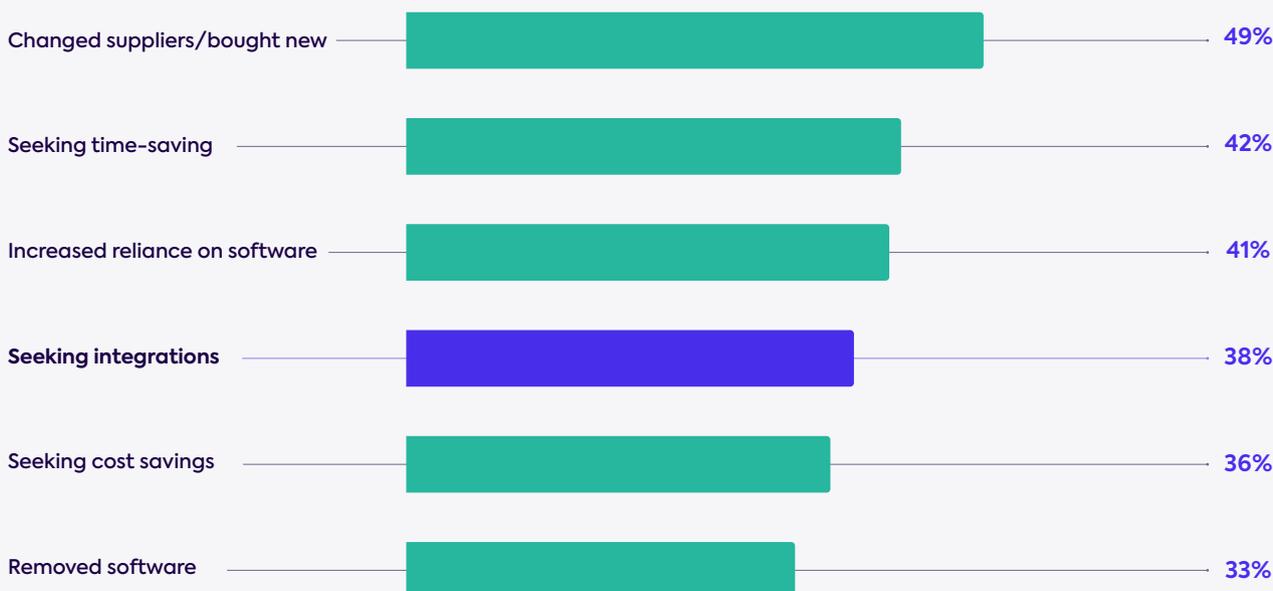
with most businesses seeking greater efficiency from their digital tools. For instance, we found that companies that value integrations switched providers at a rate of 35%—75% more than the survey average—demonstrating that connectivity is a highly motivating factor in today's SMB software market.

This trend is likely to have a significant impact on the payment industry in particular, given that **churn rates are already as high as 30%** and the **lack of loyalty** among SMBs regarding their payment platform is well documented.



Interested in learning more about what businesses think of their digital tools? Check out [the state of small business software report](#)

CHANGES SMBs ARE MAKING TO THEIR TECH STACKS



How, if at all, is the current business environment in the USA influencing how your organization uses and thinks about tools (i.e. software packages that help you do things) to help the business run efficiently? Please select all that apply. Nets aligned to cost/time/reliance/changing suppliers/removing suppliers ⁷ (Base all those who have taken an action: n=241)

What it all means

Payment software holds a central and highly valued spot in the average SMB's tech stack. In particular, data from the OECD points to a growing share of SMBs adopting eCommerce platforms.

However, our research reveals that SMBs are interested in the best possible deal, and with their pick of providers, they won't hesitate to switch to a competitor that offers lower costs or better functionality and interoperability.

To hold on to their highest-value customers as SMBs make changes to their tech stacks, payment providers must identify opportunities to become more ingrained in their customers' day-to-day operations. The most effective way to do this is by offering solutions to their most critical pain points like bookkeeping and reconciliation, managing expenses, invoicing, and tracking billable hours.

Want to discover how Codat can help you achieve that? **Contact our expert team** to see how accounting automation can help you grow and retain your customer base in 2023.



Codat's universal API connects fintech providers and financial institutions to all the major **accounting, banking, eCommerce,** and **payments platforms** their customers use, to turn building connected features from their biggest challenge to their greatest differentiator.

Codat has built the infrastructure to solve the connectivity problem for payment companies and is used by leading providers worldwide to retrieve and synchronize business data from customers' financial systems in real-time.

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