

HOW INSTANT AD HOC PAYMENTS DRIVE SMB SUCCESS

December 2023 Report

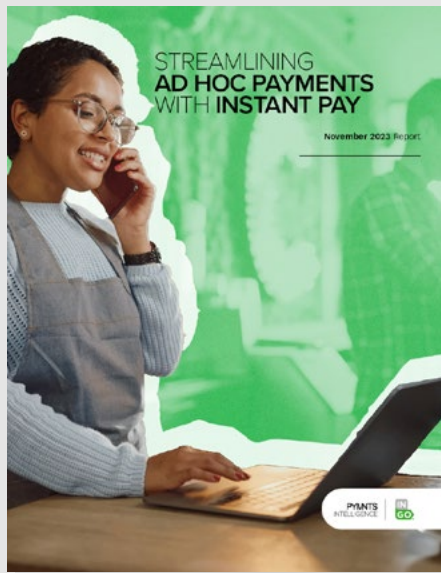


PYMNTS
INTELLIGENCE



HOW INSTANT AD HOC PAYMENTS DRIVE SMB SUCCESS

READ MORE _____



■ November 2023

Streamlining Ad Hoc Payments With Instant Pay



How Instant Ad Hoc Payments Drive SMB Success was produced in collaboration with Ingo Money, and PYMNTS Intelligence is grateful for the company's support and insight. **PYMNTS Intelligence** retains full editorial control over the following findings, methodology and data analysis.

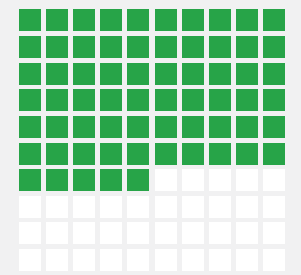
TABLE OF CONTENTS

| | |
|-------------------------------|----|
| What's at Stake | 04 |
| Key Findings | 08 |
| PYMNTS in Depth | 12 |
| Data Focus | 30 |
| Actionable Insights | 34 |
| Methodology | 37 |

WHAT'S AT STAKE

Non-recurring ad hoc payments play a significant role in the monthly revenues of small to mid-sized businesses (SMBs). In fact, 65% of SMBs' total accounts receivable (AR) volume is made up of ad hoc payments, and these payments are a vital revenue stream, mainly for services and products sold. Despite these payments' importance, manual procedures when processing them — handling, verifying, approving or collecting the payments, as well as performing related data entry — pose key challenges for SMBs, one of them being delays in receiving payments.

65%



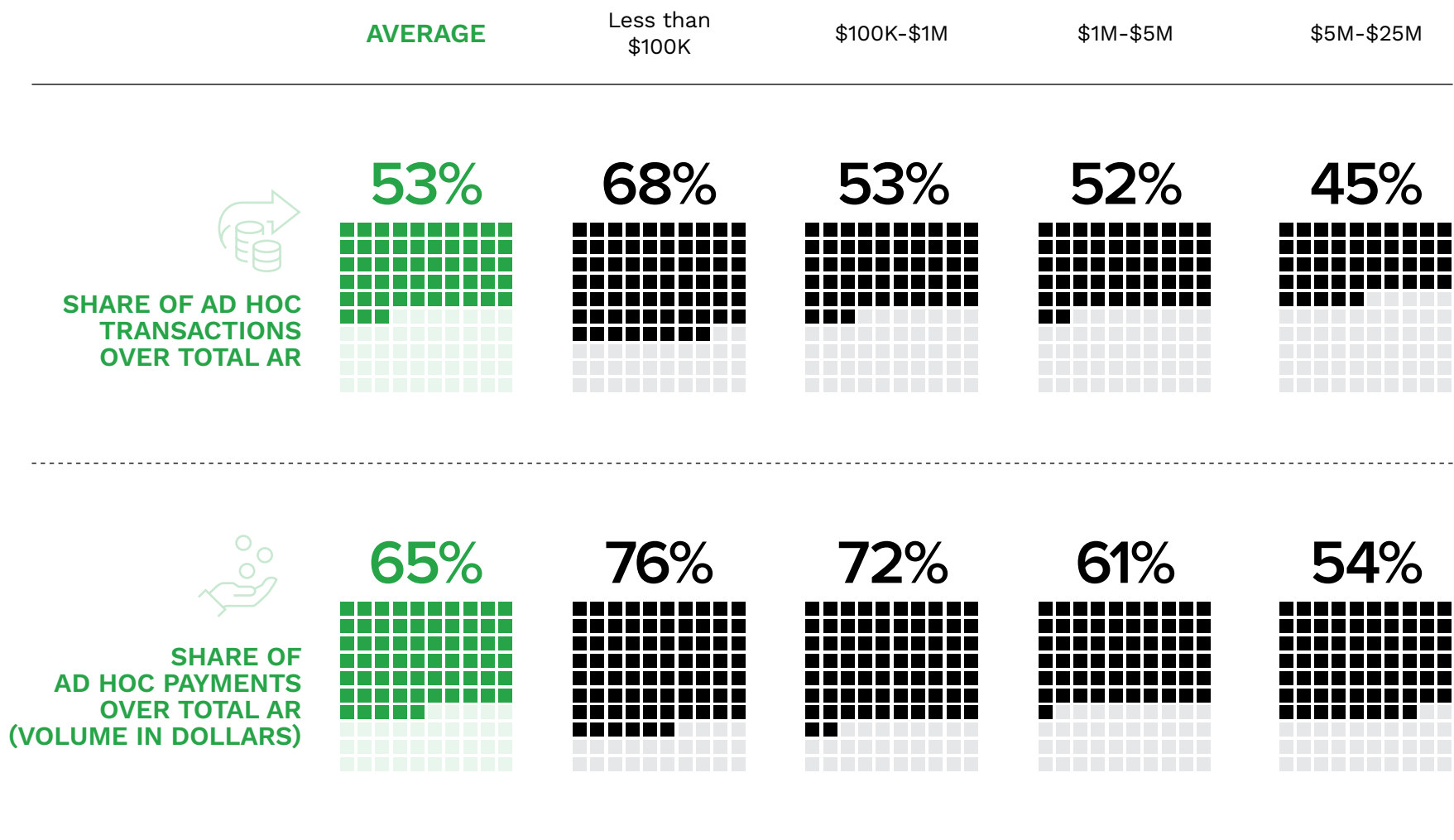
Share of total AR volume for SMBs made up by **ad hoc payments**

Many SMBs see instant payments as one way they can get timely access to payments they need to continue running their businesses, yet there are different adoption rates across larger and smaller SMBs. While 32% of all SMBs surveyed use some form of instant payment, those generating more than \$1 million but less than \$5 million in revenue receive 37% of their ad hoc payments instantly. Smaller SMBs — those generating less than \$1 million but more than \$100,000 in revenue — only receive 25% of these payments in this way, indicating that they are more likely to depend on traditional AR processes. Even so, SMBs of all sizes embrace instant payment solutions to improve cash flow management and gain a competitive advantage, so much

FIGURE 1:

Ad hoc payments volume

SMBs' average share of monthly receivables that are ad hoc payments, by transaction volume and dollar volume

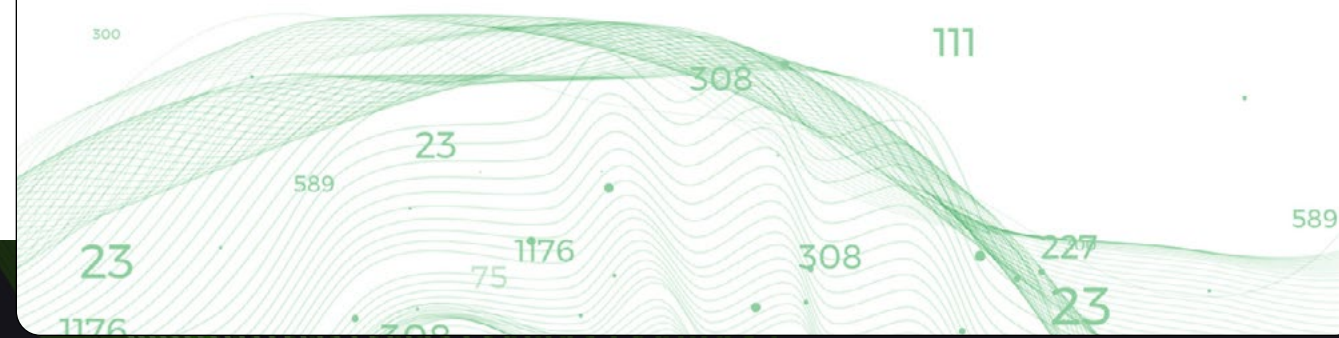


Source: PYMNTS Intelligence
 How Instant Ad Hoc Payments Drive SMB Success, December 2023
 N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023

so that some will pay for the privilege one way or another. One-third of SMBs are willing to pay fees for instant payments, while two-thirds would maintain a client relationship with senders that offer free instant payments.

How Instant Ad Hoc Payments Drive SMB Success, a PYMNTS Intelligence and Ingo Money collaboration, is based on a survey of 394 SMB receivers generating less than \$25 million in annual revenue across the United States; the survey was conducted between Sept. 8 and Sept. 26. The report examines SMBs' reliance on ad hoc payments, the challenges they face when processing AR and how instant payment methods can help SMBs manage their cash flows and set them up for success.

This is what we learned.



KEY FINDINGS

01

SIGNIFICANT REVENUES

Non-recurring or ad hoc payments account for nearly two-thirds of the monthly revenue of a typical small business.



\$219,000

Average amount of SMB receivers' monthly AR volume represented by ad hoc payments

02

MANUAL PROCESS

One-third of small businesses still mostly process ad hoc payments manually, further delaying their ability to use those funds upon receipt.



32%

Share of SMBs that primarily use manual procedures to process ad hoc payments

03

CASH FLOW AID

SMBs receive nearly one-third of their ad hoc payments volumes via instant payments, with better cash flow management a key motivator.



43%

Share of SMB receivers that cite improved cash flow management as the most important reason they choose instant payments

04

WILLING TO PAY

SMBs indicate that ad hoc payments are so important to their cash flow positions that they would be willing to pay fees to receive these payments instantly.



35%

Share of SMB receivers that are willing to pay a fee to receive payments instantly

PYMNTS IN DEPTH

Ad hoc payments make up a large share of SMB receivers' AR volume, and instant payment methods can help them streamline the payment process and improve their cash flow management.

Non-recurring or ad hoc payments account for nearly two-thirds of the monthly revenue of a typical small business.

SMBs process \$337,000 as part of their AR every month; of these, \$219,000 are non-recurring or ad hoc payments and \$118,000 are recurring payments. Small SMBs in our sample — those generating less than \$100,000 in annual revenue — depend even more on ad hoc payments, which make up over two-thirds of their AR volume. While ad hoc payments represent 76% of revenue for the smallest SMBs, ad hoc payments make up a still-significant 54% of volume for businesses generating annual revenues between \$5 million and \$25 million. This serves as an indication of the crucial role that non-recurring or ad hoc payments play in sustaining SMBs' cash flow.

FIGURE 2:
SMBs' monthly received payments

Average share and amount of SMBs' total and ad hoc monthly AR payments, by firm size

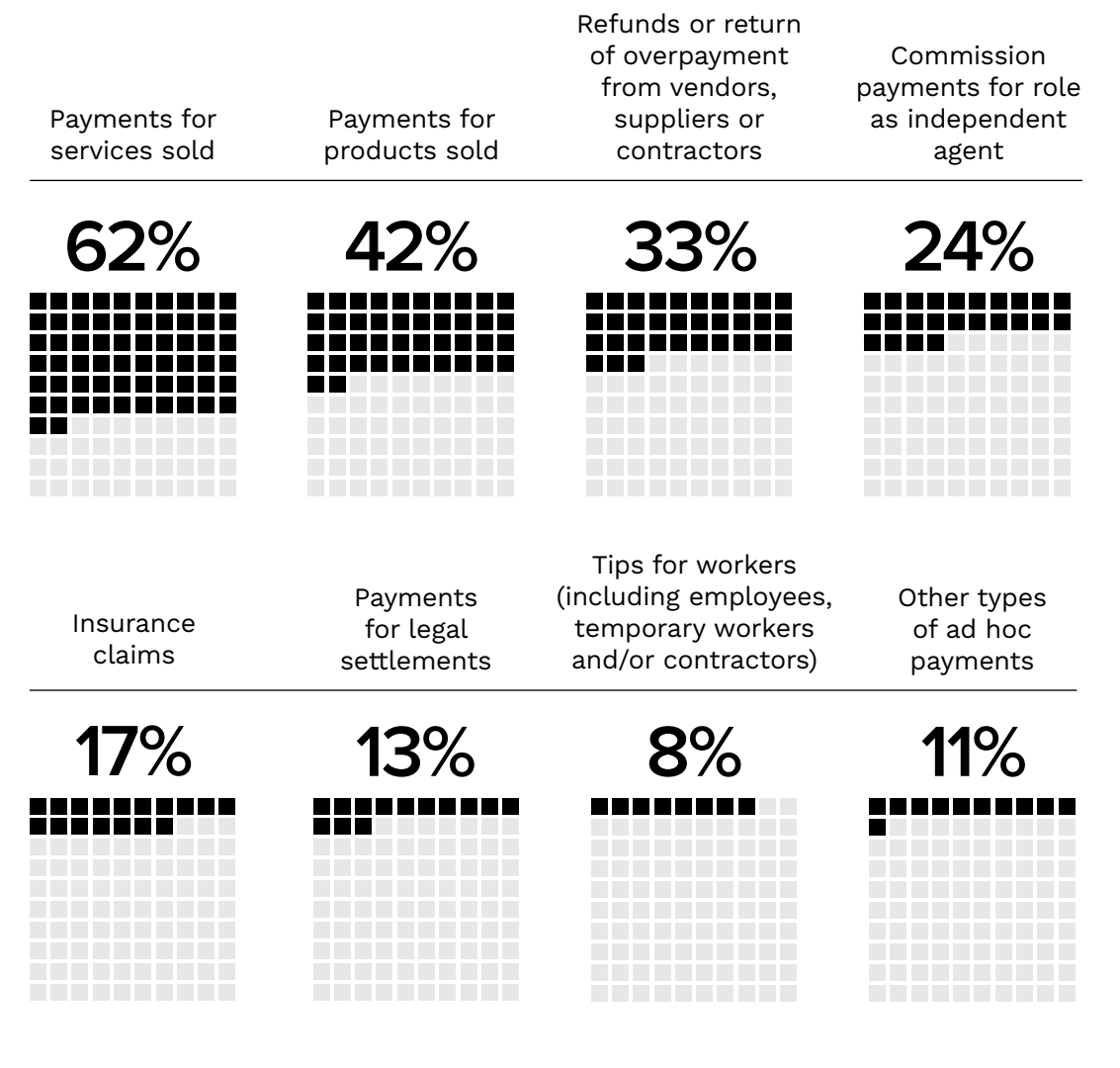
| | AVERAGE | Less than \$100K | \$100K-\$1M | \$1M-\$5M | \$5M-\$25M |
|---|----------|------------------|-------------|-----------|------------|
| • Share of ad hoc transactions over total AR | 52.5% | 68.4% | 53.3% | 51.8% | 44.8% |
| • Share of ad hoc payments over total revenue | 65.1% | 76.1% | 72.1% | 61.2% | 54.3% |
| <hr/> | | | | | |
| • Volume of ad hoc payments (in dollars) | \$219.2K | \$3.2K | \$23.2K | \$107.9K | \$467.0K |
| • Volume of recurring payments (in dollars) | \$117.6K | \$1.0K | \$9.0K | \$68.3K | \$393.3K |
| • Total AR (in dollars) | \$336.8K | \$4.2K | \$32.2K | \$176.2K | \$860.3K |

Source: PYMNTS Intelligence
How Instant Ad Hoc Payments Drive SMB Success, December 2023
N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023

More than 90% of SMBs received ad hoc payments for commissions or products/services sold as part of their revenue streams. Chief among these are payments for services sold, with 62% of SMBs receiving ad hoc payments from businesses over a typical year in this category. Payments for products sold follow in second place, at 42%. Also, 33% of SMBs receive ad hoc payments for refunds or returns of overpayment from vendors, suppliers or contractors, while 24% receive commission payments. The diversity of these irregular payments further highlights their importance to these SMBs.

FIGURE 3:
Ad hoc payments volume

SMBs' average share of monthly receivables that are ad hoc payments, by transaction volume and dollar volume



Source: PYMNTS Intelligence
How Instant Ad Hoc Payments Drive SMB Success, December 2023
N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023

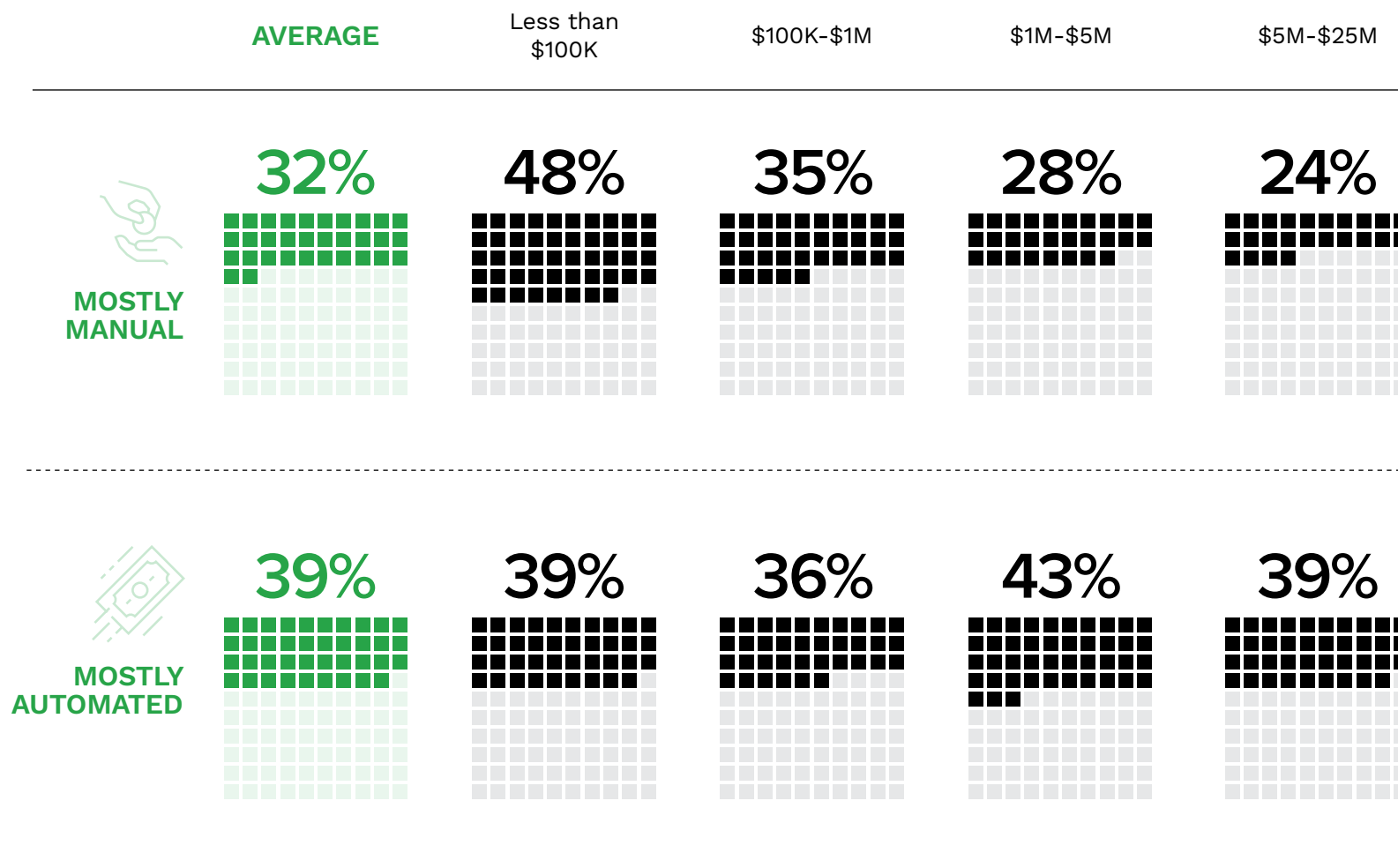
One-third of small businesses still rely mostly on manual efforts when they process ad hoc payments, further delaying their ability to use those funds upon receipt.

With ad hoc payments so important to their revenue streams and cash flow, SMBs benefit by receiving these payments as soon as possible. Yet 32% of SMBs still primarily use manual procedures when processing ad hoc payments, and these can cause frictions and delays. These manual processes include handling, verifying, approving or collecting the payments, as well as performing the related data entry, and automation can be faster and more accurate. This improved efficiency has not yet turned into widespread adoption: 39% of SMBs handle these payments mostly via automated processes, and 29% say they process ad hoc payments almost equally between manual and automated options. Yet, at 48%, the share of SMBs processing ad hoc payments manually is highest among the smallest businesses, suggesting they may be the most vulnerable to struggles with cash flow management.

FIGURE 4:

How SMBs process ad hoc payments

Share of receivers that rely mostly on manual or automated processes, by annual revenue



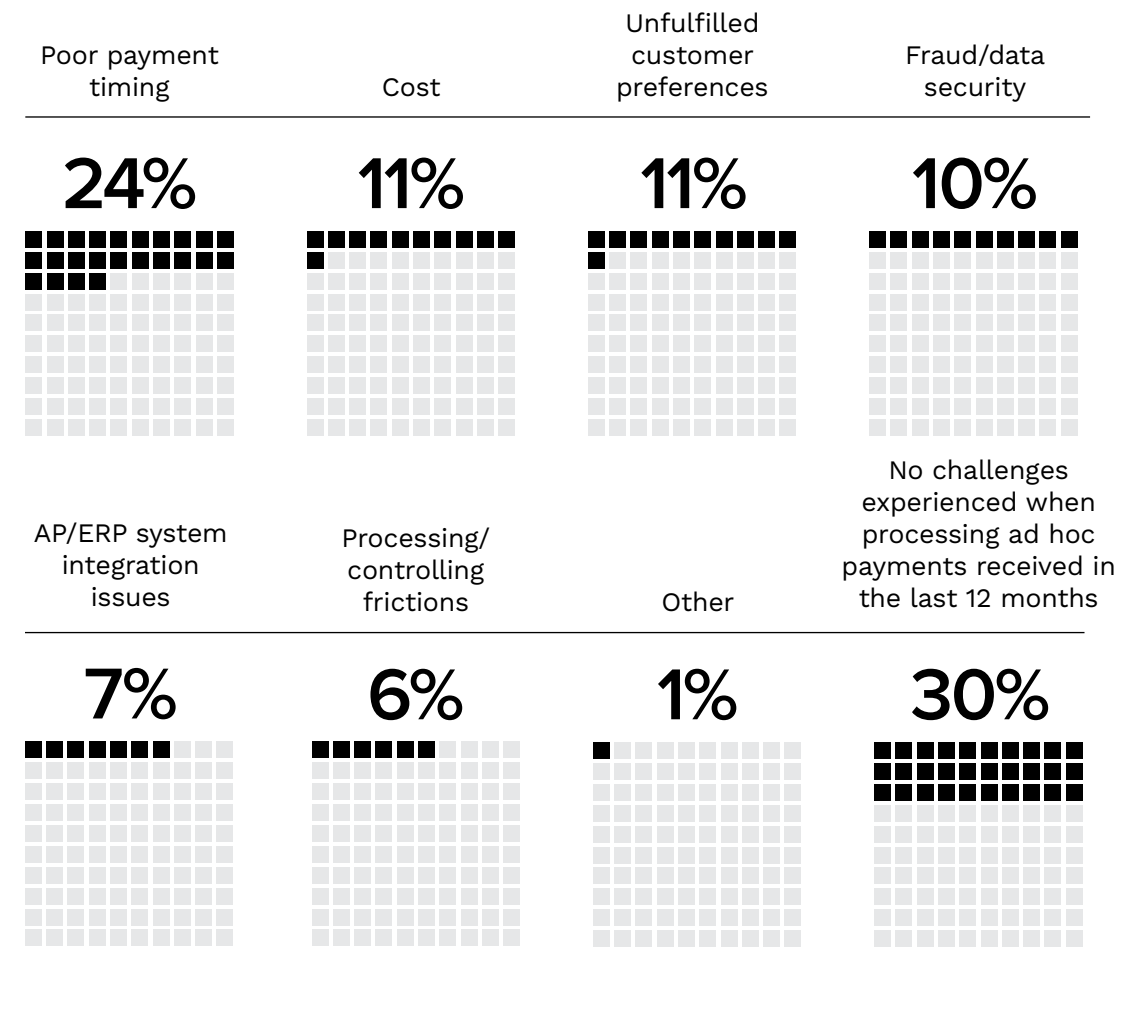
Source: PYMNTS Intelligence
 How Instant Ad Hoc Payments Drive SMB Success, December 2023
 N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023

With manual processes so widespread, it may not be surprising that 24% of SMB receivers report that receiving their payments late is the biggest challenge they faced in the last year when processing ad hoc payments. That share is more than twice as large as the shares that identified cost or fraud as the most experienced challenge (11% and 10%, respectively). Just 30% experienced no issues, confirming that processing ad hoc payments is a hardship for many SMBs.

FIGURE 5:

Challenges processing ad hoc payments

Share of SMB receivers that cite select challenges as the ones most experienced in the last year when processing ad hoc payments



Source: PYMNTS Intelligence
 How Instant Ad Hoc Payments Drive SMB Success, December 2023
 N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023

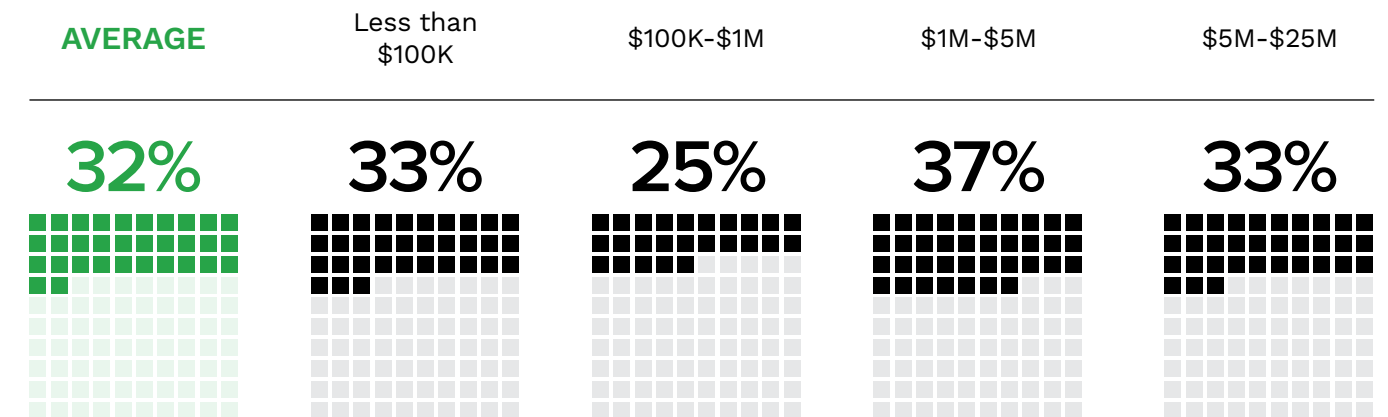
SMBs receive nearly one-third of their ad hoc payments volumes via instant payments, with better cash flow management the most important motivator.

Whether or not they automate their ad hoc payment processes, a significant share of SMB receivers opt for instant payments to improve their cash flow management, building a competitive advantage. In fact, 32% of all SMBs surveyed use some form of instant payments, whether instant payments to a bank account via a debit card or the RTP network, via Zelle or to a digital wallet. Larger SMBs tend to receive a greater share of ad hoc payments via instant than smaller ones. Those generating between \$1 million and \$5 million in revenue receive 37% of their ad hoc payments via instant methods, while those generating between \$100,000 and \$1 million in revenue only receive 25% of these payments via instant. This difference suggests that smaller SMBs need to embrace instant payment methods as a way to better manage their cash flows and, as a result, ensure they have the resources they need to stay competitive.

FIGURE 6:

SMBs receiving instant ad hoc payments

Share of ad hoc payments SMBs received via instant payments, by firm size



Source: PYMNTS Intelligence

How Instant Ad Hoc Payments Drive SMB Success, December 2023

N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023

A closer look at why SMBs are interested in instant payments reveals that cash flow management and improving their competitive advantage are top reasons they choose instant options. Seventy percent of SMB receivers choose instant payments to improve cash flow management, with 43% saying cash flow management is the most important reason for choosing instant payments. Meanwhile, 63% of SMBs also say receiving instant payments helps improve their competitive advantage, with 28% mentioning it as the most important reason. Speed/guarantee of good funds is also a reason why 63% of SMBs choose instant payments, with 22% saying this is their most important reason. The high overall shares highlight the interrelated nature of these key benefits: Timely ad hoc payments help with cash flow management, which can serve as a competitive advantage.

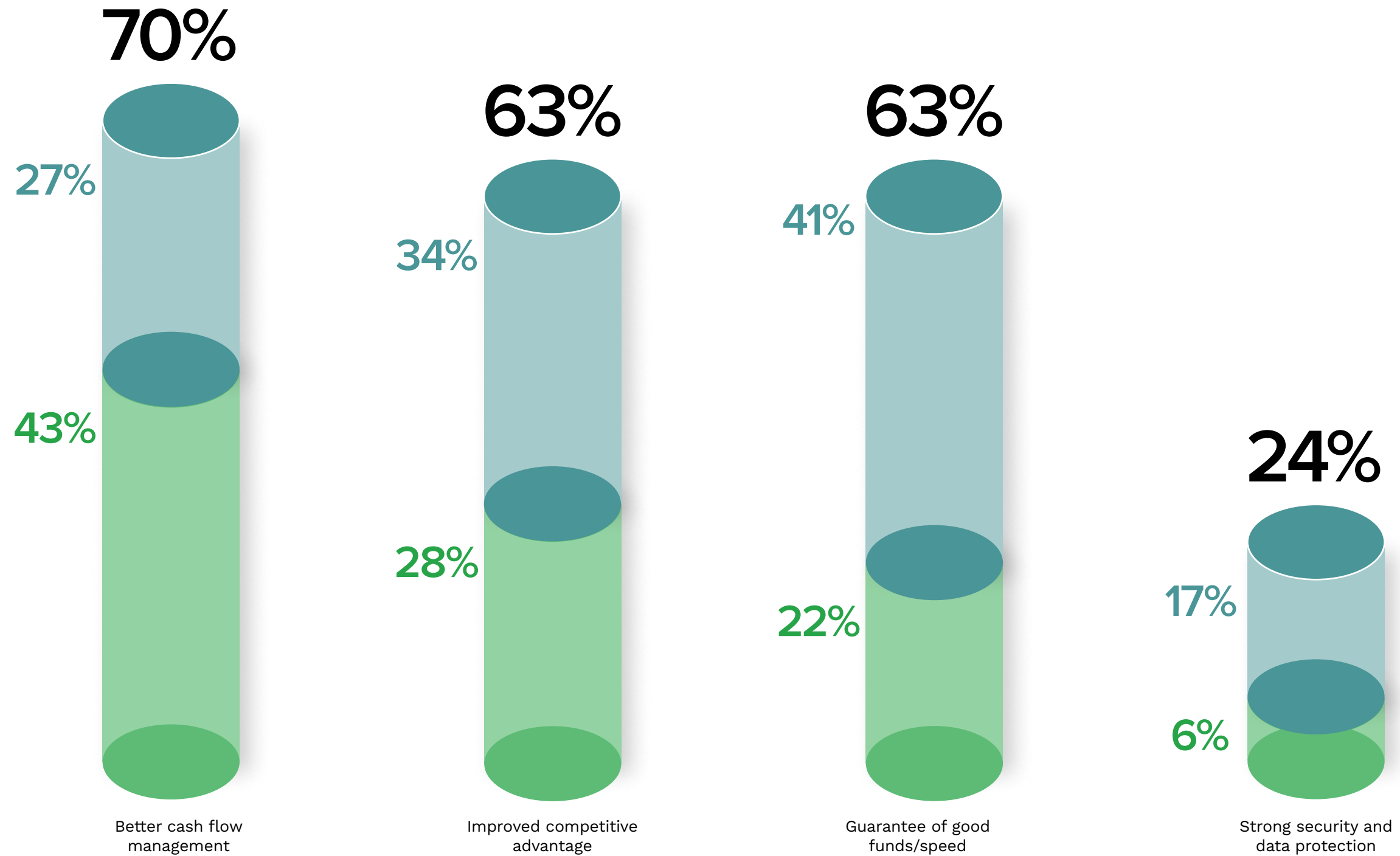
FIGURE 7:

Reasons for choosing instant when receiving ad hoc payments

Share of SMB receivers who cite select reasons for choosing instant when receiving ad hoc payments

- Most important
- Important, but not the most important
- Total

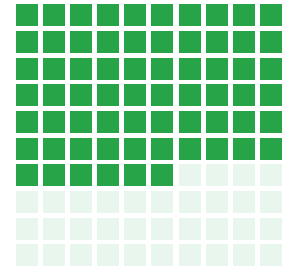
Source: PYMNTS Intelligence
 How Instant Ad Hoc Payments Drive SMB Success, December 2023
 N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023



SMBs indicate that ad hoc payments are so important to their cash flow position that they would be willing to pay fees to receive these payments instantly.

As instant methods can help improve their cash flows, a significant share of SMBs indicate a willingness to pay fees to receive ad hoc payments instantly. Overall, 7.4% of SMBs already pay fees to receive ad hoc payments via instant methods, and an additional 35% are very or extremely willing to pay a fee to do so. Larger SMBs are more willing than smaller SMBs to pay fees to receive ad hoc payments instantly. Although only 6% of SMBs generating annual revenues between \$5 million and \$25 million currently pay fees to receive instant payments, 57% are very or extremely willing to do so. By comparison, 8% SMBs generating less than \$5 million in revenues currently pay fees, and 23% would be very or extremely willing to pay a fee to receive instant payments, suggesting that paying a fee for instant may be more of a challenge for smaller firms, despite the potential benefits.

66%



Share of SMB receivers willing to continue to do business with a company that offers free instant payments

Small businesses sometimes have smaller resources, and the cost of instant may be an issue for many SMBs, data suggests. In fact, 66% of receivers say they are very or extremely willing to continue doing business with a company that offers free instant payments. SMBs generating revenues in the range of \$1 million to \$5 million are the most likely to be willing to continue client relationships if offered free instant payments, at 71%, yet 67% of SMBs earning more than \$5 million in annual revenue and 63% of those making less than \$1 million annually are willing to do so. Such high shares across firm sizes highlight the importance of instant payments in fostering strong client relationships, suggesting that offering free instant payments can help businesses maintain valuable client relationships.

FIGURE 8:
Willingness to pay fees to receive instant ad hoc payments
 Share of SMB receivers very or extremely willing to pay fees to receive instant ad hoc payments, by annual revenue

Source: PYMNTS Intelligence
 How Instant Ad Hoc Payments Drive SMB Success, December 2023
 N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023

- Already pay fees
- Very or extremely willing
- Total

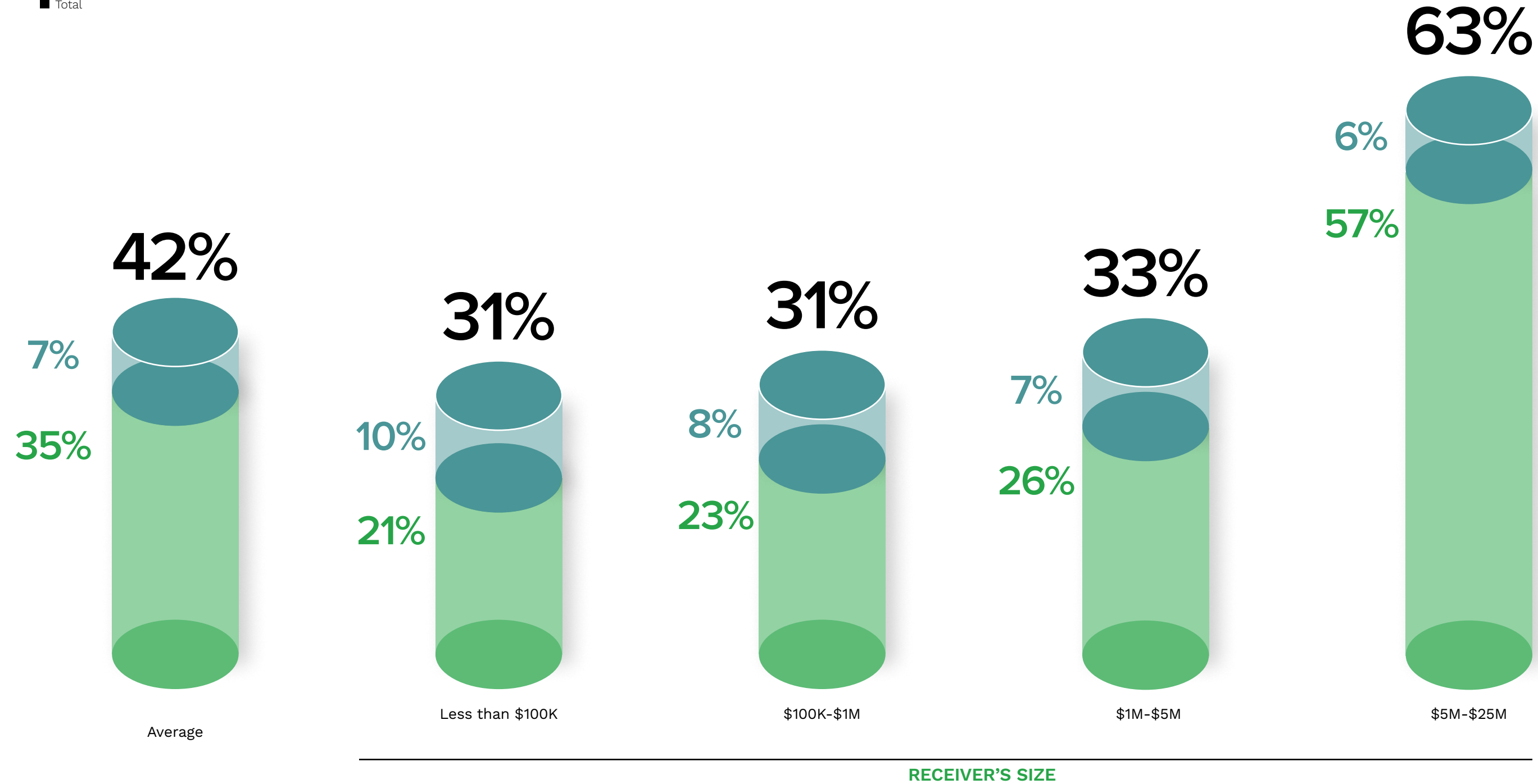
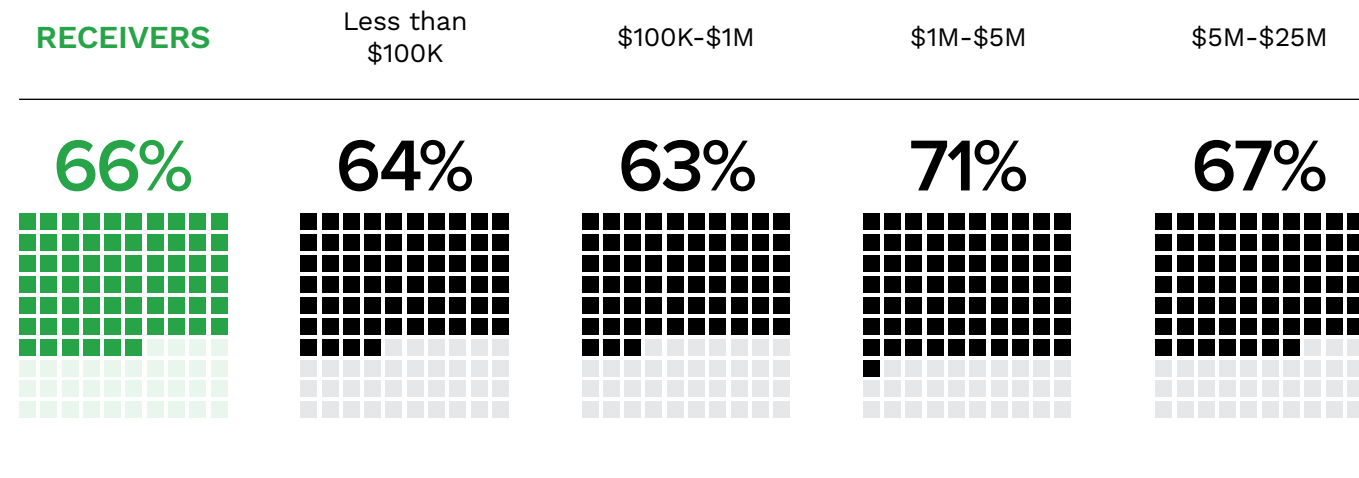


FIGURE 9:

Willingness to continue doing business with a company if offered free instant payments

Share of SMB receivers very or extremely willing to continue doing business with a company if it offered free instant payments, by annual revenue



Source: PYMNTS Intelligence
 How Instant Ad Hoc Payments Drive SMB Success, December 2023
 N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023



Overall, 7.4% of SMBs already pay fees to receive ad hoc payments via instant methods, and an additional 35% are very or extremely willing to pay a fee to do so.



DATA FOCUS

SMBs still rely on bank transfers when receiving ad hoc payments, but data reveals a new trend.

Although SMBs primarily receive non-recurring ad hoc payments directly into their bank accounts, payouts to digital wallets have gained traction.

Among payments methods used to receive all types of ad hoc payments, transfer direct to a bank account (either instantly or non-instantly) remains the primary payment method. Yet transfer to digital wallet ranks second, having overtaken push to card and check payout methods. On average, SMBs received 41% of ad hoc payments directly to bank accounts (either instantly or non-instantly) while 22% of ad hoc payments were received via digital wallets.

Tips paid out to workers and refunds or returns for overpayments are the most likely ad hoc payments to be sent directly to a bank account, at 46% and 45%, respectively. Insurance claims and payment for products sold are the most likely ad hoc transactions received via digital wallet. Thirty-five percent of insurance claims were received in a digital wallet, which is very close to the 38% of ad hoc transactions received directly to a bank account. Meanwhile, 27% of payment for products sold are received in a digital wallet. Such high shares for digital wallet usage suggests that payouts to digital wallets are on the rise as interest in these platforms also continues to grow.

FIGURE 10:

Receivers' payment method use

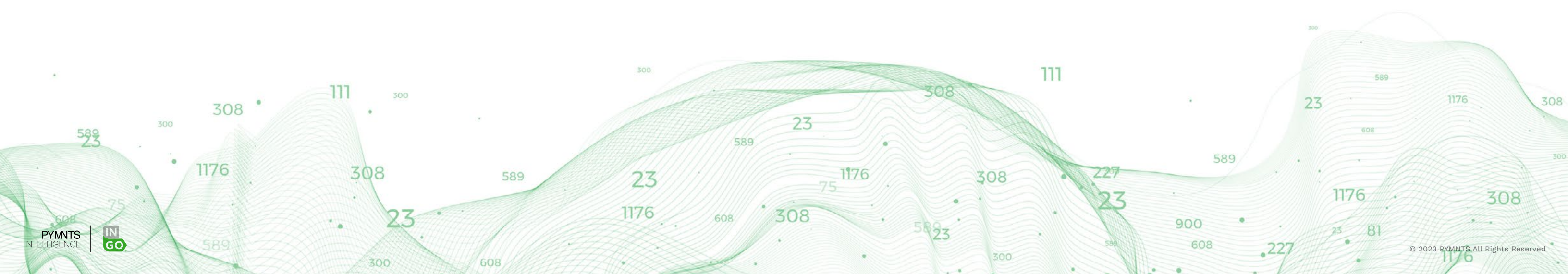
Share of receivers that used select payment methods to receive ad hoc payments

| | Direct to bank account | Push to cards | Digital wallet | Check | Cash | Other |
|--|------------------------|---------------|----------------|-------|-------|-------|
| • Average | 40.9% | 15.8% | 21.5% | 15.8% | 5.1% | 1.0% |
| • Tips for workers (including employees, temporary workers and/or contractors) | 46.2% | 7.7% | 23.1% | 7.7% | 15.4% | 0.0% |
| • Payments for products sold | | | | | | |
| • Payments for services sold | 39.4% | 21.2% | 27.3% | 3.0% | 9.1% | 0.0% |
| • Commission payments for role as independent agent | 38.0% | 20.3% | 19.3% | 17.1% | 4.8% | 0.5% |
| • Refunds or return of overpayment from vendors, suppliers or contractors | 37.2% | 14.4% | 18.0% | 26.0% | 3.6% | 0.8% |
| • Payments for legal settlements | | | | | | |
| • Insurance claims | 44.6% | 16.1% | 23.2% | 8.0% | 7.1% | 0.9% |
| | 41.5% | 18.5% | 23.0% | 10.4% | 5.2% | 1.5% |
| | 38.2% | 14.5% | 34.5% | 1.8% | 7.3% | 3.6% |

Source: PYMNTS Intelligence

How Instant Ad Hoc Payments Drive SMB Success, December 2023

N = 394: Complete responses, fielded Sept. 8, 2023 – Sept. 26, 2023



ACTIONABLE INSIGHTS



Mainly received for services and products sold, non-recurring or ad hoc payments are a vital revenue stream for SMBs, accounting for nearly two-thirds of their monthly revenues. Given this outsized importance, efficiency is critical, and SMBs of all sizes need to find ways to receive ad hoc payments in a fashion that not only improves their cash flow but also allows them to remain competitive.



One-third of SMBs still rely on manual procedures — handling, verifying, approving or collecting the payments, as well as performing the related data entry — when processing ad hoc payments, which can result in delays in payments, not to mention cash flow management challenges. This highlights the need for automated processes, especially among the smallest SMBs, which are significantly more likely than larger SMBs to process ad hoc payments manually.



SMBs are willing to pay to receive ad hoc payments via instant methods because receiving quick access to good funds improves their cash flow management. Yet for many, especially smaller SMBs, cost may be a challenge. Two-thirds of SMBs are willing to continue doing business with a company if it offers free instant payment, thus senders of ad hoc payments to SMBs may have a key business opportunity.



Firms of all sizes opt to receive ad hoc payments via instant methods to improve their cash flow management and to enhance their competitive advantage. Yet, larger SMBs receive a greater share of ad hoc payments through instant methods than smaller SMBs, indicating that smaller SMBs need to increase their use of instant payment methods to improve their cash flow and guarantee access to the resources they need to stay agile and competitive.

HOW INSTANT AD HOC PAYMENTS DRIVE SMB SUCCESS

December 2023 Report



METHODOLOGY

How Instant Ad Hoc Payments Drive SMB Success, a PYMNTS Intelligence and Ingo Money collaboration, is based on a study of 394 SMB receivers generating less than \$25 million in annual revenue across the United States conducted between Sept. 8 and Sept. 26. The survey examined SMBs' reliance on ad hoc payments, the challenges they face when processing AR and how instant payment methods can help SMBs' manage their cash flows and set them up for success.

THE PYMNTS INTELLIGENCE TEAM THAT PRODUCED THIS REPORT

Scott Murray
SVP and Head of Analytics

Paula Armendariz Miranda, PhD
Senior Analyst

Margot Suydam
Senior Writer

PYMNTS
INTELLIGENCE



ABOUT

DISCLAIMER ■

PYMNTS
INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multi-lingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.



Ingo Money is transforming the way enterprises, banks and businesses move money with embedded instant payments and payouts. Founded in 2001, it powers digital account funding and transfers, cross-platform P2P and disbursements of all kind — payroll, commissions and tips, rebates and incentives, insurance claims, loan proceeds, legal settlements, gaming winnings, bill payment and more. With the industry-leading payments gateway, Ingo provides senders and recipients with unmatched choice in how they pay and get paid and protects clients from the risk of real-time money movement with proprietary, network-wide risk and fraud AI, authentication tools, real-time transactional underwriting and funds guarantees. Headquartered in Alpharetta, Georgia, Ingo employs more than 250 payments experts and serves some of the largest brands in North America.

How Instant Ad Hoc Payments Drive SMB Success may be updated periodically. While reasonable efforts are made to keep the content accurate and up to date, PYMNTS MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, OR RELIABILITY OF OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED “AS IS” AND ON AN “AS AVAILABLE” BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATIONS ARE PROVIDED BY PYMNTS AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.

Components of the content original to and the compilation produced by PYMNTS is the property of PYMNTS and cannot be reproduced without its prior written permission.

We are interested in your feedback on this report. If you have questions, comments or would like to subscribe, please email us at feedback@pymnts.com.