

Attention Small Businesses: There's a Generation-Sized Untapped Customer Base

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If COVID-19 has taught us anything about America's small businesses, it's that we've been underestimating their ability to embrace risk. Since March 2020, necessity has inspired America's small businesses to adapt quickly by shifting their business online, changing their product lineups, introducing new services and customer experiences and searching out new markets.

These risks appear to be paying off. According to the U.S. Census' Retail Sales Survey, fourth-quarter retail sales in 2020 were 6.9% higher than Q4 in 2019. That growth was led by online sales, which rose 32 percent over the prior year.

If necessity is the mother of invention, opportunity may be its father. Fear of risk, as well as a host of factors constricting how businesses accept payments, has kept many retailers from embracing a market opportunity that may prove just as big as online sales: reaching unbanked and underbanked consumers.

According to the FDIC's 2020 "How America Banks" survey report, in 2019, 6% of American households were unbanked, meaning no one in the house held a checking or savings account. The FDIC has classified an additional 16% of

Americans as “underbanked,” meaning they hold some formal bank account but also use alternative financial services such as prepaid credit cards or check-cashing services.

Just how big is this potential market? More than 60 million Americans are unbanked and underbanked – roughly the same size as Generation X (65 million). Imagine, as a business, turning your back on an entire generation of customers. Yet all too often, retailers effectively do. To tap into this pool of loyal customers, businesses must make the effort to understand how they make purchasing decisions and offer payment modalities that meet these customers’ needs.

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Misperceptions may be one reason small businesses haven’t actively courted unbanked and underbanked consumers. Not having a bank account doesn’t mean someone exclusively shops at discount stores, is on general assistance or is unable to pay for goods and services. Welcoming these types of consumers doesn’t mean diluting a brand perception retailers have spent decades building. All it means is that most unbanked and underbanked consumers are locked out of the type of transaction small business owners and customers take for granted –walking up to the cash register, inserting a bank-issued credit or debit card into the reader, and walking out with the product they want.

The financial services industry hasn’t made it easy for small businesses to serve underbanked consumers. Banks have used stodgy and outdated algorithms to determine credit-worthiness. POS systems have been set up to accept a finite number of payment networks.

Large retailers who see the potential in this untapped customer base have had to walk over broken glass to set up alternative financing systems or demand customers qualify for them by filling out invasive applications. This can be a

daunting, and even humiliating, hurdle. For small businesses who are short on resources and restricted to using out-of-the-box POS systems, sales have been either cash, card, or “Sorry, we can’t help you.”

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Adopting inclusive technologies

There is a way small businesses can bridge the gap between the perceived risk of engaging underbanked customers and the reward of reaching 60 million potential customers: by thinking more inclusively about the payment process.

Some large retailers are already rolling out the welcome mat to unbanked and underbanked people. Both Amazon and Wal-Mart now offer mechanisms (Amazon Cash and the Dotcom Store, respectively) for customers to pay at physical locations for products in their online stores. Smaller businesses can take advantage of these growing varieties of frictionless, discrete and convenient new ways to serve customers who lack banking accounts.

Unbanked and underbanked consumers have become creative in adapting non-bank-based forms of payment. The use of gift cards and prepaid debit cards for all kinds of transactions, for example, is on the rise. Mobile banking, widespread in countries like China, is also growing. Several major retail chains allow Sprint and T-Mobile customers to deposit cash into T-Mobile Money accounts, launched in 2019. The accounts even pay interest and issue debit cards. More and more large retailers are integrating third-party buy-now-pay-later services and lease-to-own options, both of which are portable between brick-and-mortar and online stores.

The pandemic has also prompted small, local businesses to accept new forms of payment. Close to four-fifths of the

businesses using mobile payment systems such as Square are already brands with annual sales of less than \$10 million. And increasing numbers now accept peer-to-peer payments through Venmo, Paypal or CashApp.

Given the flood of innovation taking place in this sphere, reaching a generation-sized market of underbanked and unbanked customers doesn't require small businesses to take on more risk. What it does require is for businesses to think more inclusively.

It's time to take a hard look at how we present barriers to people who manage their money outside traditional banks. Focus on adopting a more diverse set of inclusive technologies that, in turn, can help convert shoppers into customers and grow small businesses' bottom lines in the process.

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