

Visa Consulting & Analytics

The Rise of Small and Medium Sized Enterprises (SMEs)

Understanding the needs of SMEs to capture growth opportunities

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Small and Medium Sized Enterprises (SMEs) are becoming an increasingly attractive market across Sub-Saharan Africa (SSA)

In fact, SMEs now make up 90% of businesses and more than 50% of employment worldwide. In emerging economies 40% of GDP comes from formal SMEs and they are expected to create at least 90% of new jobs by 2030¹.

COVID accelerated the rise of SMEs and enhanced the growth of entrepreneurship in the already expanding GIG economy as people searched for another way to make money due to imposed personal circumstances such as job losses and salary reductions.

As SMEs and the GIG economy continue to grow, they offer a sizable customer base opportunity to tap into from both an Issuing and Acquiring perspective, their unique characteristics mean that traditional Banking offerings aren't meeting their needs and new Banks and FinTechs have been emerging to fulfill the needs of SMEs.

When designing an SME offering it is imperative to remember that these offerings touch the customer, not only as a consumer but as a merchant and business payer too. For Issuers this means:

- Knowing that the resurgence of 'survivalist' entrepreneurs will mean that the future mix of SMEs as both a primary or secondary income source will challenge the relevance of any historical views on the sector.
- Understanding that lack of financial access and inclusion stifles SME growth, in developing countries in particular SMEs are less likely to obtain bank loans than large firms so have to rely on friends and family to launch. As a result, there needs to be an increasing focus on working capital finance solutions based on SME payment acceptance volumes.

While for acquirers this means:

- Helping SMEs overcome barriers to entry in card acceptance. High point of sale costs and cash flow needs mean that the Micro-SME segment experiences strong barriers to card payment acceptance. To capture this customer base acquirers need to offer flexible pricing and technology developed to drive the use of low-cost acceptance solutions such as SoftPos.
- Assisting SMEs to pivot their businesses online, COVID required many SMEs to offer eCommerce or even mCommerce making access to digital sales particularly important. Best in class acquirers and FinTechs are aware of this and have been widening their SME market share by increasing their number of accepted payment methods, creating new pricing strategies, providing ease of integration, accessible digital UX and easy integration with SMEs ERPs software.

Visa is perfectly positioned to help you both understand and design offerings so that you can capture growth opportunities in SME segment, our suite of capabilities and partners can be leveraged to create a best-in-class SME proposition and experience.

1. World Bank, SME Finance; International Finance Corporation (IFC)

Sizing the SME Opportunity

There are approximately 52 million Small Medium Enterprises (SMEs) across Nigeria, Kenya and South Africa. These SMEs are predominantly micro-enterprises (i.e. ~98% of SMEs in Kenya and 99% of SMEs in Nigeria are micro-enterprises). Trade/Retail is the dominant sector for SMEs in Nigeria (42.3%), Kenya (63%) and South Africa (39%).

Commercial payments flow across Sub-Saharan Africa is estimated at \$2 trillion, primarily driven by South Africa at \$594bn. Our research shows that commercial payment volume in Nigeria is \$425bn and in Kenya it is 80bn

SMEs in SSA contribute significantly to GDP and labour force. For example, In Nigeria, SME contribution to GDP and labour force is 50% and 76% respectively. In Kenya labour force contribution from SMEs is as high as 93% and contribution to GDP is 40%. In South Africa, the contribution of SMEs to GDP and labour force is 34% and 68% respectively.

The opportunity to serve the SME market across SSA is huge.

Description	Nigeria ^{2, 3}	South Africa ^{4, 5}	Kenya ^{6, 7, 8, 9}
Market Size <ul style="list-style-type: none"> Nigeria (2017) South Africa and Kenya (2020) 	41.5m MSMEs – (99% are micro enterprises)	2.4m MSMEs	7.41m MSME – (98.3% are micro enterprises)
GDP contribution <ul style="list-style-type: none"> Nigeria (2021) South Africa and Kenya (2020) 	50%	34%	40%
Labour force contribution <ul style="list-style-type: none"> Nigeria (2021) South Africa and Kenya (2020) 	76%	68%	93%
Commercial Payments Opportunity Size <ul style="list-style-type: none"> Kenya, Nigeria and South Africa (2021) 	\$425bn <ul style="list-style-type: none"> Card \$46bn Non-cardable XB: \$285bn Non-cardable DOM: \$94bn Cardable split: <ul style="list-style-type: none"> SMEs – \$8bn LMM – \$38bn 	\$594bn <ul style="list-style-type: none"> Card \$89bn Non-cardable XB: \$130bn Non-cardable DOM: \$374bn Cardable split: <ul style="list-style-type: none"> SMEs – \$16bn LMM – \$73bn 	\$84bn <ul style="list-style-type: none"> Cardable: \$9.2bn Non-card XB: \$18.5bn Non-card Domestic: \$56.3bn Cardable split: <ul style="list-style-type: none"> SMEs – \$2bn LMM – \$7bn
Top Segments (MSMEs registrations) <ul style="list-style-type: none"> Nigeria (2017) South Africa and Kenya (2020) 	Top MSME sectors (2017): <ul style="list-style-type: none"> Wholesale/Retail trade (42.3%) Agriculture (20.9%) Services (13.1%) Manufacturing (9%) Accommodation and Food Services (5.7%) Together these account for about 91% of all MSMEs	<ul style="list-style-type: none"> Top MSME sectors (2020): Trade and accommodation (39%) Construction (14%) Finance and Business Services (13%) Community (13%) Manufacturing (9%) Transport and Communication (7%) Together these account for about 95% of all MSMEs	Top MSME sectors (2020) - unlicensed: <ul style="list-style-type: none"> Wholesale/Retail Trade, repair of motor vehicles and motorcycles (~63%) Manufacturing (12%) Accommodation and food services (9%) Agriculture, fishing and forestry (4%) Transport and storage (3.7%) Together these account for about 92% of all MSMEs (unlicensed)
Formal vs. Informal split		<ul style="list-style-type: none"> 67% informal 28% formal 	<ul style="list-style-type: none"> 1.56m licensed (21%) 5.85m unlicensed (79%)

2. Nigeria Bureau of Statistics - <https://smedan.gov.ng/41-5m-amsmes-registered-in-2017-nbs-smedan-national-survey/>

3. Naira metrics

4. Small Enterprise Development Agency (SEDA) - https://edse.org.za/wp-content/uploads/2021/04/SMME-Quarterly-2020-Q3_08032021.pdf

5. International Finance Corporation - <https://www.ifc.org/wps/wcm/connect/c72c87df-0b91-40bf-bab2-04d143a83927/134151-WP-ZA-Unseen-Sector-MSME-Opportunity-South-Africa-PUBLIC.pdf?MOD=AJPERES&CID=mOcuQwe>

6. Kenya Association of Manufacturers - <https://kam.co.ke/the-focus-on-smes-is-a-welcome-intervention/>

7. FSD Kenya - <https://www.fsdkenya.org/nairobi-mse-study/>

8. Kenya National Bureau of Statistics - <https://s3-eu-west-1.amazonaws.com/s3.sourceafrica.net/documents/119905/KNBS-Economic-Survey-2020.pdf>

9. Kenya National Bureau of Statistics - <https://www.undp.org/content/dam/kenya/docs/IEG/MSME%20SURVEY%202016%20-%20HIGHLIGHTS%20OF%20BASIC%20REPORT.pdf>



SMEs require Issuers and Acquirers to embrace a new approach

Trends shaping the increasingly attractive SME sector demonstrate how traditional value proposition offerings are not suited to this emerging economy, for instance:

- *SMEs personal and business needs overlap*, SME cards are not always required to run a business but there is demand to be able to use one product for business and personal expenses or at least the ability to use an SME card and consumer card interchangeably, this is particularly true for the self-employed.
- *Propositions need to be flexible and designed to cater to the variety of not only businesses sizes but types that exist within the SME sector*, from start-ups to sideliners and lifestyle to professional and midsize. Each segment, and sub-segment has differentiated and complex needs, requiring a tailorable needs-based approach.
- *Workforce needs are evolving*, the GIG economy is driving growth in the micro-merchant and self-employed segments but many of their needs are still unmet with significant under-banking in some markets.
- *Open Banking has undermined traditional banking relationships*, by allowing best in class service providers direct access to customers that might have been otherwise committed to their Bank. The wide range of new APIs and functionality on offer via a single interface mean that account holders can turn to service providers as they no longer have to use their Bank to manage their money.
- *There is a demand for digital self-service offerings*. SMEs are looking for self-service user experiences that make the most of additional functionality offered by digital innovation such as better expense tracking and transactions controls. Digital-first providers that focus on creating simple propositions with first-class user experiences are emerging to meet this need.
- *Innovative providers are entering the merchant services and business cards space*. Neo Banks such as N26, Monzo and Starling Bank are focusing on the SME card space, non-Bank FinTechs like BREX, Revolut, Tide and Mettle are offering cards and payment accounts, and various FinTechs including Sage and Kabbage are supplying relevant non-card value-added services such as money management and accounting software integration which make it easier for SMEs to run their businesses.

To date, these trends have meant that Neo Banks and FinTechs have been leading the way in creating a new generation of needs based value propositions which are driving penetration and usage by creating significant added functional value for their users.

Instead of following the traditional business model where a card is an extra opt-in service provided on top of a banking relationship, underwriting is not separated from lending so does not rely on general bank underwriting, and usage and retention are achieved with traditional levers which are mostly loyalty based. This new model views cards as an acquisition 'foot in the door' first step into a banking relationship then adds additional products and services. This means that cards are seen as a business tool instead of payment medium and loyalty is based on functionality so the value proposition proposition is created with a needs-based customer centric approach.

Traditional banks are starting to understand that if they want to make gains in the SME sector, they need to pivot away from their standard business value propositions and embrace the rapid changes in the marketplace caused by digitization and the entry of new players. To keep up they need to work around their legacy systems and speed to market. There are several ways to do this:

- Some traditional Banks have adopted in-demand digital services, such as fast, easy, and streamlined underwriting and user experiences, advanced card controls with limits on employee transactions, real time visibility of incoming and outgoing payments, available funds, and non-integrated accounting support.
- Others have decided to collaborate with FinTechs, for example BBVA created entire ecosystems of FinTech partnerships including SME offerings while JPMorgan Chase partnered with Marqeta to provide tokenization.
- While other traditional Banks decided to buy or launch their own FinTechs, HSBC for example, launched HSBC Kinetic, BBVA acquired Simple in the USA and Atom in the UK, BNP launched Hello Bank, Goldman Sachs launched Marcus and RBS launched Mettle.



Utilizing SME needs to create the right value proposition

Visa's suite of capabilities powered by insights from VisaNet data which range from simple batch data to dashboards to bespoke analytics programs and cardholder analytics, can be leveraged in tandem with our network of partners to assist you tailor your value proposition so that you can not only meet SME needs but create a best-in-class SME propositions and experiences. Our insights to the sector have allowed us to identify six keys to unlocking the SME opportunity.

Key #1 – Providing a convenient and user-friendly experience

SMEs are looking for a product that adds value and makes their lives easier, this means offering quick underwriting and approval, streamlined UX and focusing on positive results.

Utilizing Visa's credit scoring solutions, go to market and payment strategy knowledge, and customer experience and customer lifecycle management plans can support you to offer a product that not only runs smoothly but benefits the SMEs that use it. Such as Merchant Capital and Nedbank who have used credit lending solutions underpinned by both issuing and acceptance data to broaden financial inclusion and access to working capital.¹⁰

Key #2 – Embracing digital capabilities

SMEs want a value proposition that gives them digital capabilities such as onboarding, virtual issuance digital card controls, savings pockets, data reporting and expense management.

Visa can help you strategize and implement a digital on-boarding solution, support you to provide digital issuance via Visa Token Services and help you develop additional digital benefits that capture the attention of your target audience. These don't have to be restricted to helpful software, for instance, the SBM Business Debit Card is based on a merchant discount program across multiple categories which allows its cardholders to gain discounts of up to 30% at select partners including restaurants, holiday resorts and jewelry.¹¹

Key #3 – Offering end to end business management and integration

If you can make life easier for SMEs they will be more attracted to your product, offering business admin features such as sending and paying invoices and accounting software integration is a great way to do this.

Visa has several solutions that can help you to provide these features, from Visa reporting tools such as Visa business reporting, integration into cloud accounting, and digital performance dashboards to our Visa payment solutions of Business Debit, Business Credit and Visa Direct, and our ability to help you assess and select the best value-added services for your customers. So that you can come up with a product like Access Bank's Business Debit card which has focused on providing digital solutions to help their account holders businesses grow such as saving 10% on Microsoft Office 36, 100% cashback on the first \$100 of Ad Spend on Google and 10-30% off a DocuSign package.¹²

10. https://youtu.be/er_3t21qEIs

11. Source: desktop research

12. Source: desktop research



Key #4 – Ensuring your value proposition is personalized and customized

Targeting SMEs is all about meeting their needs and providing them with the right product, so it goes without saying that your value proposition must be able to adapt to the requirements of every unique business in the SME sector and offer them something which provides them with real value.

By making the most of Visa's tools to segment the SME market and define the unique personas that exist within it, we can then help you to create a tailored value proposition design which utilizes our engagement tools such as:

- Small business offers and customer lifecycle management, to ensure your value proposition resonates with SMEs and makes the most of both the traditional and new approaches to banking.
- Core Professional Value proposition which combines personal banking needs by providing a private banking experience tailored to the customers unique financial needs twinned with the ability to add on a business account which includes a range of relevant business features – and makes the most of providing a typical relationship banking services and card features like a dedicated banker with broader financial products cross-sold based on specific needs including platinum investment products and financing for business purchases.¹³

Key #5 – Understanding the nuisances of your local market

It is important to remember that understanding your local market helps you build a value proposition which appeals to your target audience. What appeals to SMEs varies both locally and globally, so you need to have a truly holistic approach.

VisaNet data allows us to provide unique insights to your market so that you are providing the benefits that are locally rather than globally relevant.

For instance, in the US, Issuers such as Capital One, Wells Fargo, Citi, Chase and Bank of America typically lead their acquisition strategies with rewards cards, with a clear focus on cash back over points or miles and focus on either one-time bonus of cashback/points or make such offers throughout the duration of the account being active.¹⁴

While, in the UK a few traditional and non-traditional Issuers including Starling Bank, Tide, NatWest, RBS and Lloyds lead their acquisition strategies with free accounts and online/app management, showing that cost and convenience might be strong influencing factors when small businesses are evaluating business card offerings.¹⁵

Across SSA, Issuers include value added service offerings as key drivers of acquisition, examples include Standard Bank (working capital loan calculator), FNB (eCommerce switch), Access Bank (financial education support), NCBA (insurance). These are coupled with low-cost digital payment solutions such as QR acceptance, SoftPOS and Mobile Wallets to enable use and acceptance.¹⁶

13. Source: desktop research

14. Source: desktop research

15. Source: desktop research

16. Source: desktop research



Key #6 – Understanding that SMEs need to be looked at from both the Issuing and Acquiring perspectives

You cannot look at SMEs from only the issuing perspective, with this sector you need to be aware that customers could also have acceptance needs. So, you will need to consider how you approach this, will you utilize partnerships with payment facilitators or work more closely with in-house acquiring?

Visa research has revealed that SMEs have overlapping traits and behaviors with regards to the payment streams of customers, suppliers, and salaries, this has allowed us to develop a solutioning approach which focuses on both increasing acceptance and issuance through partnerships and new payment flows.

When it comes to payment solutions from the issuing perspective you need to consider how to accelerate card and digital issuance through a two-pronged approach: firstly by leveraging existing financial institution partners, particularly Visa where applicable, and secondly by forging new partnerships with non-financial institutions such as MNOs to serve the SME mass customers, this means enabling the issuance of digital wallets, prepaid cards, debit cards, credit cards and EFTs, and exploring cash on delivery options. While from an acquiring acceptance perspective you need to develop low-cost acceptance by focusing on; scaling low-cost form factors and enabling SME online presence, this means enabling standard POS, mPOS and SmartPOS, exploring payment gateways, APIs and QRcode/scan to pay solutions.

For new payment flows, the Issuer and Acquirer perspectives are similar, capturing these new payment flows requires you to enable new use cases with Visa Direct and penetrate Business to Business (B2B) and Business to Consumer (B2C) payment flows. Partnerships are also relevant here as you can leverage existing partnerships to develop the payments ecosystem and increase financial inclusion.

Value propositions can be tailor made to address SME needs across different areas

1. Turnover
2. Business Sector (e.g. Agriculture, Health Care, Education)
3. Domestic vs. International Trade
4. Lifetime Value

Value Added Services that Issuers can provide to bolster their value proposition to the SME sector

1. Administration support (e.g. company registration, tax filing)
2. Financial services (e.g. Working capital loan, insurance)
3. Analytics services (e.g. sales reporting trends etc)
4. eCommerce enablement (e.g. website setup time)
5. Business Advisory or Education Services to enable SMEs grow and expand profitably



As the rise of SMEs continues it is important that both Issuers and Acquirers do not dismiss opportunities and take the time to ensure that they have a value proposition offering that meets the needs of the SME sector

By targeting SMEs Issuers can benefit from:


















- **Increased card and digital issuance**, by leveraging existing cardholder relationships Issuers can grow activation and usage of debit and prepaid cards in the underpenetrated SME customer segments.
- **Enabling supplier payments**, making use of Visa's solutions such as Visa Direct and Online bills Issuers can easily deploy instant and appealing payment solutions and partnerships to provide alternative low cost B2B supplier payable solutions issuers can access new revenue streams.
- **Supporting salary disbursements**, by utilizing existing Visa solutions such as Visa Direct to deploy SME employee salary disbursement solutions opens up another contact point with customers.
- **Developing cross-cluster initiatives**, helps Issuers to develop multi-purpose bank accounts and re-design their digital banking platform to stay appealing to not only SMEs but all customers.

While Acquirers will benefit from:

- **Providing low cost and secure acceptance models**, such as cloud acceptance tap-to-phone devices to SMEs or deploying mini terminal acceptance devices helps to grow commerce acceptance.
- **Promoting secure card and digital payments that meet PCI DSS global security standards**, to improves visibility and compliance around data security and advance the adoption of real time fraud detection systems and 3D Secure (3DS) across Issuers and Merchants.

How Can Visa Help?

Visa understands the need to look at SMEs from both the issuing and acquiring perspective and offer a host of capabilities that can be delivered at each step of the customer journey as an Issuing, Acquiring and Value Added Services.

Issuing	Acquiring	Go To Market Strategy
 Business credentials (credit, debit and prepaid)	 Digital Onboarding	 Value Proposition Design
 Digital/Virtual Issuance	 CyberSource SMB for online transactions	 VAS recommendations
 Credit Scoring Solutions	 Visa QR Solution	 Customer Experience/Customer Lifecycle Management
 Tokenization	 SoftPOS/Tap To Phone	 Persona / Market Segmentation Analysis
 Payment Controls	 BNPL/Instalment Payments	
 Visa Spend Clarity		
 Offers Platform (Loyalty/Benefits)		
 Visa Direct		

To find out more on how to enhance your assessment of marketing performance contact your Visa Consulting & Analytics representatives directly via e-mail



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About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, digital marketing specialists, data scientists and economists across six continents:

- Our consultants are experts in strategy, product portfolio management, digital, risk and more, with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence, and our breadth of data, allows us to identify actionable insights and recommendations to enhance your digital onboarding proposition.

We can help you to improve your digital offering and design, sharpen your targeting and acquisition strategy and transform the digital experience your customers receive.



For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com. You can also visit us at [Visa.com/VCA](https://www.visa.com/VCA).

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