Recognizing the Advantages of Merchant Services for Financial Institutions

Why your financial institution should take advantage of offering merchant services.

By Peter Michaud

There is a significant percentage of Small and Medium Business (SMB) bankers who lack an understanding of merchant services and how much value it adds to their financial institution. Financial institutions capture a significant business advantage by offering merchant services to small business banking customers. It is imperative that financial institutions educate, invest, and incent the proliferation of merchant services to their customers.

Embracing Merchant Services

TSG's research[1] indicates that financial institutions who embrace merchant services have similar characteristics. They are highly knowledgeable about merchant services, receive increasing revenue share opportunities, use a continuous and recurring sales process, partner with their processing partners for joint marketing efforts, set pricing, offer different pricing solutions, oversee customer management, provide issue resolution, and have in-house payments experts regardless of the program type.

The Direct Benefits of Merchant Services

17%

TSG's research that financial institutions receive between $100 to $200 per month in additional revenue for merchant services from SMB[2] customers. These merchants are larger than the average merchant and the length of the relationship is longer than other sales channels[3]. Merchant services represents approximately 17% of SMB revenue for financial institutions that offer merchant services. The bank channel continues to be a trusted and valued source for merchant services.

The Indirect Benefits of Merchant Services

TSG's research also reveals three indirect benefits of offering merchant services. These three drivers play a vital role in the development and prosperity of SMB customers.

Prolonged Business Relationships

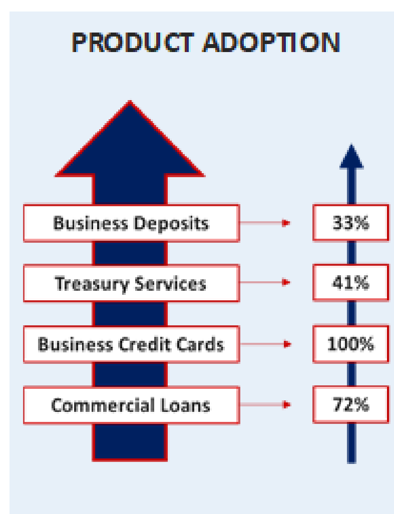
10%

Merchant service offerings strengthen the relationship between financial institutions and businesses. Business relationships last approximately 10% longer for merchant service customers. If a small business banking customer lasts an average of 10 years, this prolonged tenure contributes an additional year in bank revenue.

Increased Product Adoption

8%

Merchant service customers are also more likely to utilize other products. The 8% rise in product adoption for merchant service customers can be seen across a variety of products and services including business deposits, treasury services, commercial loans, and business card. The rates of adoption increase from a range of 33% to 100% higher. In terms of business credit cards, merchant services customers are twice as likely to utilize this product when compared to other customers.



Higher DDA Balances

11%

Merchant service customers have average DDA balances that average 11% higher when compared to non-merchant service customers. Since financial institutions value deposits as a primary source of capital, financial institutions that offer merchant services to SMB customers experience 10% to 50% increases in customer account balances overall.

Understand Merchant Services

33%

TSG's research discovered that 33% of the small business bankers have very little understanding of merchant services. Shockingly, only 5% of bankers are highly knowledgeable of merchant services. It is apparent that SMB bankers need an increasing amount of education in merchant services.

Merchant services are offered by financial institutions to cater to their customers' needs and allow them to conduct their business more efficiently and seamlessly. These services may include point of sale terminals, security and fraud protection, PCI compliance, and overall payment processing. Financial Institutions need to offer merchants services, including a comprehensive set of products and solutions to maintain a strong and comprehensive relationship with their customers.

Invest in Merchant Services

40%

When the direct and indirect benefits are compiled, financial institutions experience up to a 40% increase[4] in revenue from merchant services customers versus non-merchant services customers. The direct benefits by merely offering merchant services are substantial, and the indirect benefits should compel financial institutions to provide it for all customers.

Since financial institutions remain one of the strongest channels for selling merchant services[3], it is imperative for financial institutions to invest in, and take the initiative to, build out, provide, and maintain a merchant services solution.

About The Strawhecker Group

The Strawhecker Group (TSG) is a fast-growing analytics and consulting firm focused on the electronic payments industry. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving space.

[1] *TSG's Merchant Research Study was conducted from June 2018 to March 2019 by surveying financial institutions to better understand the direct and indirect benefits they receive by offering merchant services. All percentages and statistics used in this report were derived from the survey results which were aggregated and analyzed.*

[2] *SMBs are customers with less than $10 million in annual revenue*

[3] *Based on The Strawhecker Group's Acquiring Industry Metrics (AIM) database of 3.7 million card accepting merchants*

[4] *Based on a merchant services SMB customer providing $200 per month in merchant services revenue, $1,000 in monthly banking revenue, an 8% increase in revenue from product adoption, and lasting an additional of year of tenure (from 10 to 11)*