

Quick Hit:

The Payment Platforms

Winning Over SMBs



enigma

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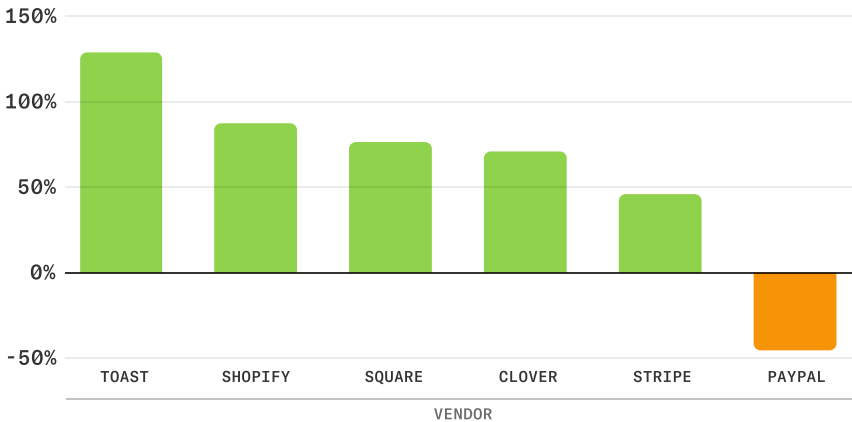
The Payment Platforms Winning Over SMBs

[85% of shoppers](#) prefer to use card payments and, in turn, 46% of small businesses and restaurants in a recent [Forbes poll](#) told the publication that they use some form of countertop POS. As penetration of payments gateways and POS systems within the small-and-medium-sized business (SMB) segment grows, there is a large opportunity for providers to invest in servicing them. [McKinsey](#) predicts the majority of revenue growth in merchant services will come from SMBs – and that SMBs will spend more than \$100 billion on payment services by 2025.

SMBs are a critical market opportunity for payment platforms and knowing which SMBs are growing – and which payment platforms are competition – can make prospecting and signing on new SMBs easier. Enigma provides unique financial data about U.S. businesses, including payment technographics (both in person and online). We analyzed our data, including card transactions, covering millions of U.S. businesses to understand which payment platforms are growing in the SMB space.

The Growers

Median 2021–2022 Year–Over–Year Revenue Growth Of SMBs Using Payment Vendor as Their Identified Single Vendor



SMBs using the 2011-founded Toast grew the fastest from 2021-2022, as restaurants exited the pandemic. Median YoY revenue growth for an SMB partnered solely with Toast was a robust 129%.

Toast is built for and is particularly popular with restaurants – nearly 96% of SMBs tagged by Enigma using Toast as their sole POS were food service establishments compared to under 35% for all other platforms. In the Toast’s recent Q1 2023 [earnings release](#), revenue was up 53% YoY.

Notably, median per business growth across all the major platforms was positive. Despite a recessionary environment, SMBs are a growing opportunity for payment platforms to invest in prospecting and upselling. The one exception was PayPal. Due to PayPal’s heavy indexing on smaller, e-commerce-focused merchants, we hypothesize that the exit from the pandemic likely led to a lot of ecommerce-only merchants shutting down or migrating away from PayPal.

Other platform standouts include the retail-focused Shopify and generalist Square. Shopify’s stock price has [essentially doubled](#) over the past year after continued revenue and user growth. Square parent company Block, meanwhile, [beat estimates](#) in its recent 1Q23 earnings announcement with 26% revenue growth.

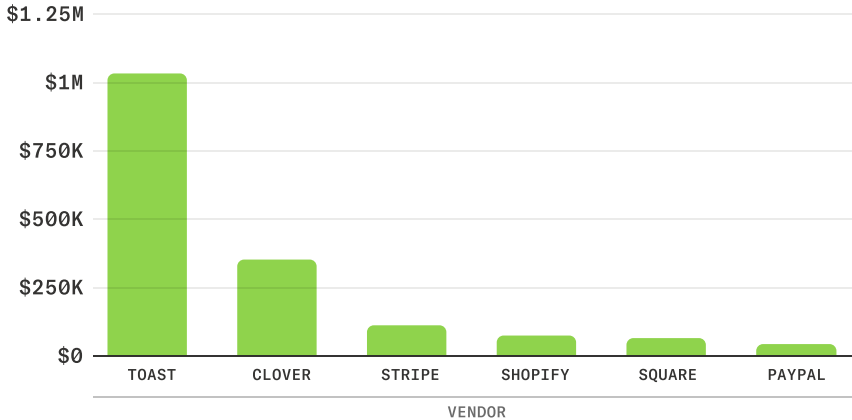
It’s key for payments platforms to understand which prospects are growing and which competitors they are choosing for POS services to better prospect and tailor onboarding offers to SMBs.



The High Earners

Median 2022 Annual Revenue

Of SMBs Using Payment Vendor as Their Identified Single Vendor



Businesses who use Toast as their single payment platform also generally have higher annual revenues. A median annual revenue for a Toast-loyalist business is approximately \$1 million a year compared to just ~\$45,000 a year for a Paypal-only business.

Clover and Stripe loyalists also have high annual revenues at ~\$354,000 and ~\$112,000 a year, respectively.

Clover specifically brands itself as a provider of “credit card processing for small businesses,” offering tools like inventory management, staff scheduling, and payroll processing on top of traditional POS and processing services.

Dublin-based Stripe, meanwhile, grew revenue significantly YoY in both 2021 and 2022, up to \$14 billion in 2022.

Growing revenue can serve as a proxy for higher processing volumes. As payment processors earn more through higher processing volumes, these growing businesses are particularly valuable.

Payment platforms can use data like Enigma’s to find growing SMBs and to understand who their payment processor competition is for these growing businesses.

Methodology

The 985,693 SMBs included in the analysis had historical card revenue in both 2021 and 2022 and only one identified payment processor. SMBs with partnerships with more than one vendor were not included in the analysis. Total included card revenue examined for year-on-year median revenue growth from 2021 to 2022 was \$180 billion of both online and offline card transactions.

Payment processors included in analysis were Clover, Toast, Shopify, Stripe, Paypal, and Square. Notable excluded processors included Adyen and Braintree, due to a small volume of detected results.

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