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Will Paige

BNPL for business could help cash-strapped SMBs

Article

Trendspotting: Persistently hot inflation and a tougher climate for companies looking to access short-term loans is providing buy now, pay later (BNPL) firms with opportunities to expand into business payments, according to Bloomberg.

The opportunity: Already established as a service for shoppers looking for staggered interest-free payments, BNPL companies can also provide short-term financing to businesses, an **industry estimated to be worth $700 billion**, per Bloomberg.

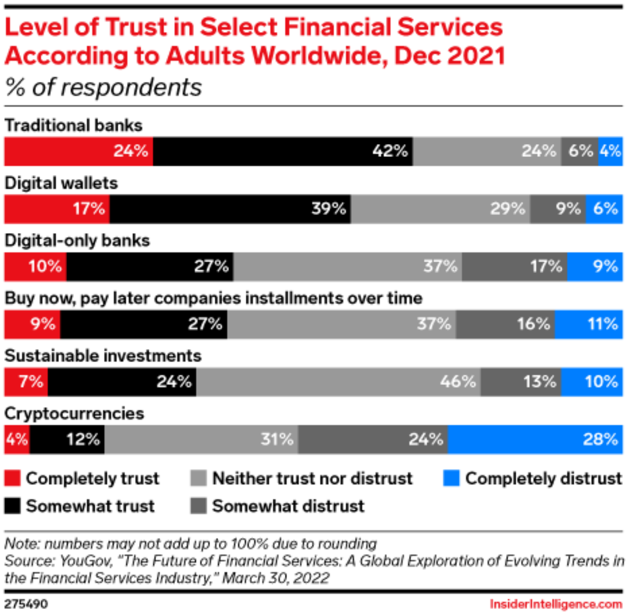
- BNPL for business will also help payment companies diversify, a possible strategy to ride out BNPL's short-term troubles. The added revenues and income streams will help fintechs weather the downturn and spread risk.
- The short-term financing industry for small and medium-sized businesses (SMBs) is also ripe for innovation: 34% of US employer firms applied for financing last year—and of that group, just 42% had their needs met, per the Fed. Established banks dominate the industry, but they can be slow moving and reluctant to spend resources serving SMBs.

Why it could work:

- **Cash crunch:** Small businesses often struggle with cash flow issues, a problem exacerbated by the pandemic. **Almost one-quarter (23%) of the UK's small businesses have cash flow problems for more than six months of each year, and 94% did so at least once in 2021**, per Xero Small Business Insights and Accenture research. BNPL can relieve these cash flow issues.
- **Adaptability:** BNPL firms can gain market share by capitalizing on their ease and speed compared with established lenders, which are sometimes hampered by their large size when working with SMBs.
- **Shifting competition:** High street lenders may curb their SMB lending due to the gloomy economic climate. This could leave a void for BNPL firms to fill. But they'll face competition from merchant services firms' working capital and other offerings. **Block**, for example, could be well-positioned given its lending offerings, recent purchase of **Afterpay**, and wide network of businesses.

What's holding it back?

- **Complexity:** Lending to businesses will not be as simple as helping retail shoppers. The obligations companies have are far more varied, with added legal complexities and more at stake if businesses miss payments.
- **Image problems:** Trust in BNPL is lower than other financial services, held back by a lack of regulation and concerns that it could encourage unmanageable debts. SMBs may opt to keep working with traditional banks and merchant service fintechs instead.



The big takeaway: A recessionary environment could create opportunities for BNPL to target cash-hungry SMBs with short-term funding needs.

But fintechs that already operate in the B2B BNPL space—like **Resolve**, **Behalf**, and **Vartana**—have a head start to capitalize on growing demand. And expanding away from retail and into business finance will be risky, bringing its own set of challenges.

Keep reading: *Check out our* ***Era of Uncertainty: Merchant Services Providers*** *and* ***Small-Business Payment Disruptors*** *reports for more on how payment firms can give small businesses a recession lifeline.*

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