



# The 2021 Merchant Processor's Growth Playbook:

How Offering Business Capital Can Prime You for Post-COVID Growth

**LendingFront, Inc.**  
1 Little West 12th Street  
New York, NY 10014

info@lendingfront.com  
(212) 235-7378

[www.lendingfront.com](http://www.lendingfront.com)



Although the COVID-19 pandemic dealt a blow to the entire economy, small businesses have been hit particularly hard. Retail foot traffic plummeted, and fewer customers meant fewer transactions—and diminished service fees for merchant payment processors.

Recovery is on the horizon—but if you provide services to brick and mortar retail, the comeback is likely to be slow. Even though restrictions have eased in most parts of the US, many types of businesses (not just bars and restaurants) still face occupancy limits. And a recent study suggests that consumer confidence and comfort in stores will remain low throughout 2021,<sup>1</sup> even as vaccines roll out.

The fact is this: many businesses shuttered their doors as a result of Covid-19, but the ones that survived did so by transitioning from brick-and-mortar businesses serving local customers into digital businesses serving broad audiences.

**As a result of COVID-19, the behaviors and expectations of both customers and business owners changed quickly.**

And for merchant processors, that means offering fast, secure, and more convenient ways of doing business. You already provide this in the form of an efficient payments system—but there are additional ways of leveraging your platform that both increase revenue and

deepen customer relationships. Specifically, a growing number of merchant processors are taking advantage of their unique insight into the merchant's transactions to facilitate a cash advance program.

With an established customer base and visibility into real-time business activity, merchant cash advances (MCAs) are a natural extension of your platform. In addition, due to the restrictions on how PPP loan money can be used, a growing number of small businesses seek the more flexible terms of MCAs—and they need a trustworthy, efficient, and secure partner to deliver them.

Word is out about this huge demand, and competition is increasing.



## So what's next?

This white paper lays out how merchant processors can secure their place in the small business MCA ecosystem.

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<sup>1</sup> <https://www.cnbc.com/2021/01/15/jamie-dimon-says-jpmorgan-chase-should-absolutely-be-scared-s-less-about-fintech-threat.html>

# The Small Business Lending Ecosystem

Digital lenders with cash on hand have already seized lending opportunities and are filling a market gap by extending working capital to small businesses. Fintechs like PayPal and QuickBooks; tech behemoths like Amazon, Apple, and Google; alternative lenders like Biz2Credit and Kabbage; and large merchant processors including Square and Stripe are already providing much-needed capital to small businesses—and they’re giving banks and credit unions a run for their money.

In some cases, tech companies are outpacing big banks in this arena—and banks are taking notice.<sup>2</sup>

Yes, the lending field is crowded, **but that’s because it’s lucrative.** Even within this competitive environment, there’s plenty of demand that isn’t being met. Almost all businesses (besides the increasingly rare cash-only retailers) need a merchant processor—and there’s room for more growth for processors that satisfy more of a small business owner’s needs.

**If you’re a merchant processor, you have built-in advantages within the ecosystem.**

Small and mid-sized merchant processors have a golden opportunity to service their customers in a way that brings speed and convenience to the MCA process. You have a technological edge; your visibility into the business is current; your loan structure and payment plan can become more nimble.

You can make the process fast and frictionless, and that’s a win-win for both you and your small business customers. Seize the moment, or industry giants will continue to conquer territory and steal customers. **That territory ought to be yours.**

Here’s how you can leverage data, technology, and your existing customer base to offer merchant cash advances to small businesses—and open the doors to a new revenue stream.



<sup>2</sup> <https://www.cnbc.com/2021/01/15/jamie-dimon-says-jpmorgan-chase-should-absolutely-be-scared-less-about-fintech-threat.html>

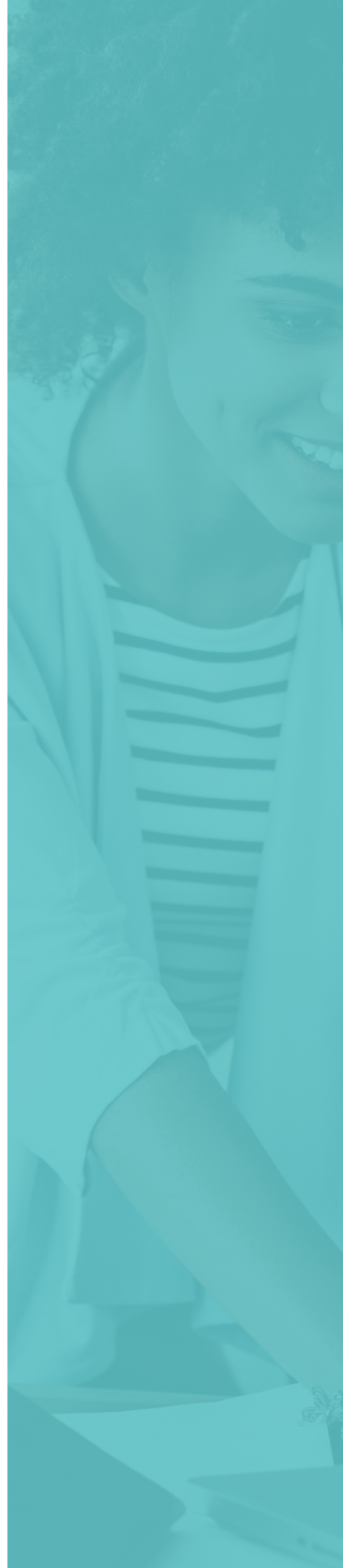
# The Merchant Processor Edge

As a merchant processor, here are your unique advantages when it comes to fulfilling the needs of small businesses:

- **Sticky customer base:** While some lenders have to put time, money, and effort into marketing and customer acquisition, merchant processors already have a loyal customer base to tap (including data on which retailers may be prime prospects for capital), making acquisition costs significantly lower. Offering MCAs can also help safeguard your existing customer from competitive poaching.
- **Real-time data on business activity:** Merchant processors have data on their existing customers—their would-be borrowers—giving them a leg up over traditional financial institutions that rely on lagging indicators of creditworthiness, such as last year's tax returns. Offering cash advances to retailers based on real-time business activity is inherently less risky.
- **Lower barriers to entry:** If customers have your proprietary terminals, the infrastructure to accept repayments is already in place, which means lower risk and higher profit margins. If you've got the technology, the capital, and the customers ready and waiting, then cash advances are a natural extension of your services.

Here's how you capitalize on that edge:

- **Tap your pre-approved customer base:** While other lenders have to first acquire customers and then wait to approve businesses for a loan, merchant processors have a dual advantage. They have an existing customer base and they can pre-approve merchant loans because of the data they possess. These relationships are ongoing, and as a small business grows, so will the amount of financing it needs to scale.
- **Use an end-to-end digital lending solution:** If a business agrees to a loan, having a streamlined system in place is essential. Because cash advances aren't a merchant processor's core business, the process needs to be easy and efficient from start to finish.
- **Deliver funds quickly:** Merchants need cash, and fast. 24 hours is the new benchmark for the delivery of funds. You have the ability to disburse funds quickly and meet rapidly shifting expectations.
- **Create revenue-based repayment plans:** Merchant processors can offer multiple repayment options: a fixed, daily fee or split-pay where the merchant pays based on a percentage of receipts.
- **Roll loan payments into the transaction process:** Unlike other financial institutions, merchant processors have the unique ability to bundle loan payments with existing service fees—and, as a result, get repaid easily, efficiently, and before other vendors.



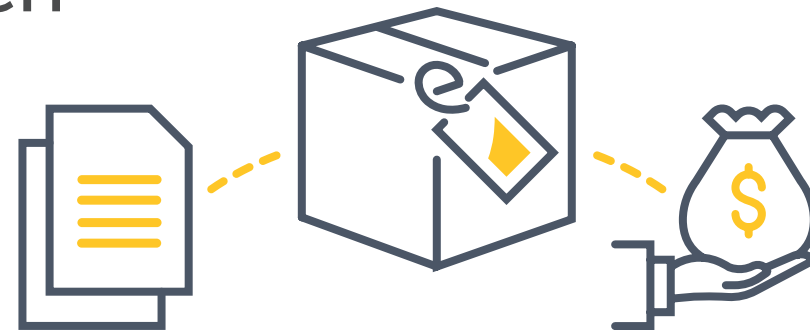


# The Digital Solution: Efficient, Accessible, Data-Driven

The right end-to-end digital solution can help you ramp up quickly and start lending within weeks.

Not sure how to set up a merchant cash advance program? Look for a partner that offers more than just technology. A partner should have a digital platform that allows you to leverage your existing technology and data—and implement a simple process that ties together every step of the process.

Here's what a comprehensive cash advance program should include:



- **Digitized application process:** Under legacy systems, the process for merchant cash advances can be tedious and sprawling, but a high-calibur end-to-end solution can deliver everything you need in a single package. A system that supports application intake, data aggregation, and more can help reduce error and streamline the process.



- **Built-in pre-approvals:** Find a digital solution that allows you to pre-screen merchants against your credit policy and leverage your visibility into real-time business activity. A white-collar interface that can send pre-approval communications is a bonus, too.



- **Document collection and management:** A white-label system that provides a document portal allows lenders to carefully gather, collate, and analyze cash advance paperwork. For merchants, it helps expedite the tedious process of document organization.

# The Digital Solution:

## Efficient, Accessible, Data-Driven Cont'd



- **E-signatures:** With digital signatures, merchants get 24/7 accessibility to cash advance applications and won't be constrained to work on documentation during business hours. They'll also avoid drawn-out processes that require manual approval—and therefore get faster loan disbursement.



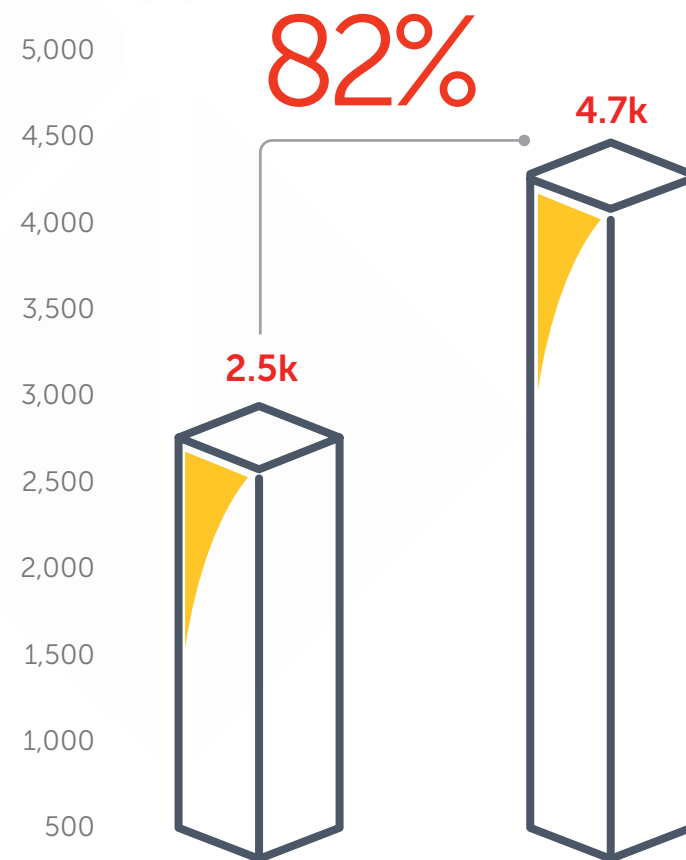
- **Funds Disbursement:** With advanced automation, clients can select their term, rate, and loan amount. Greater specificity and customization of loan disbursement means a more flexible and fluid lending process.



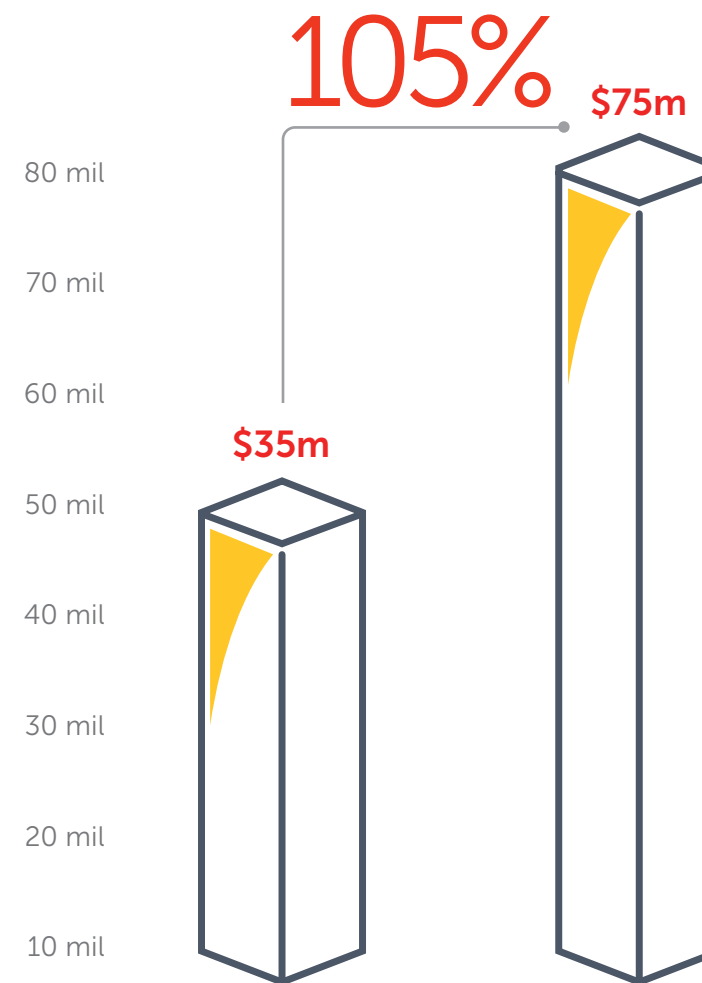
- **Servicing:** Merchant processors want to be able to fulfill small loans without administrative burdens, so look for an easily configurable end-to-end solution. A white-label interface that meshes with your brand can help you customize all aspects of the small business lending experience.

# Case Study: How One Merchant Processor Used LendingFront to Boost Their Digital Program

Impact to Scalability  
(funded apps)



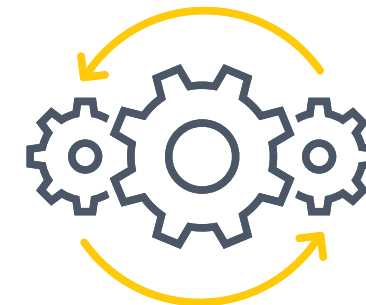
Impact to Revenue  
(funded \$)



Impact to Infrastructure  
(7 systems to 1)



Impact to Personnel  
(Greater productivity with same headcount)





LENDINGFRONT

**Ready to be at the forefront of small business lending?**

[LendingFront.com](https://LendingFront.com) [sales@lendingfront.com](mailto:sales@lendingfront.com) (212) 235-7378

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