EBOOK

Reducing barriers to credit card payments

Introduction

> Credit card payments have long been favored for their efficiency and convenience, but how can you influence your buyers to choose this optimal payment option?

To truly maximize your influence, it is essential to create a seamless customer experience that not only offers multiple payment options but also actively reduces barriers to credit card payments. By eliminating obstacles, you can pave the way for smoother and faster transactions, benefitting both your business and your customers.

This ebook is your comprehensive guide to initiating meaningful conversations with your customers about credit card payments. We delve into the latest payment trends, explore strategies to incentivize buyers towards credit card payments, and provide actionable insights to build a partnership that maximizes the potential of card transactions.

Discover how to unlock the power of credit card payments, streamline your AR operations, and break down barriers that hinder credit card adoption for your buyers.

Buyers want payment choice

Suppliers have a crucial role to play in shaping successful B2B transactions. By meeting buyers where they are and offering a diverse range of payment options, you can make a significant impact on your relationships with buyers. Ignoring buyer preferences and not providing desired payment methods can heighten the risk of losing buyers to competitors that are more accommodating.

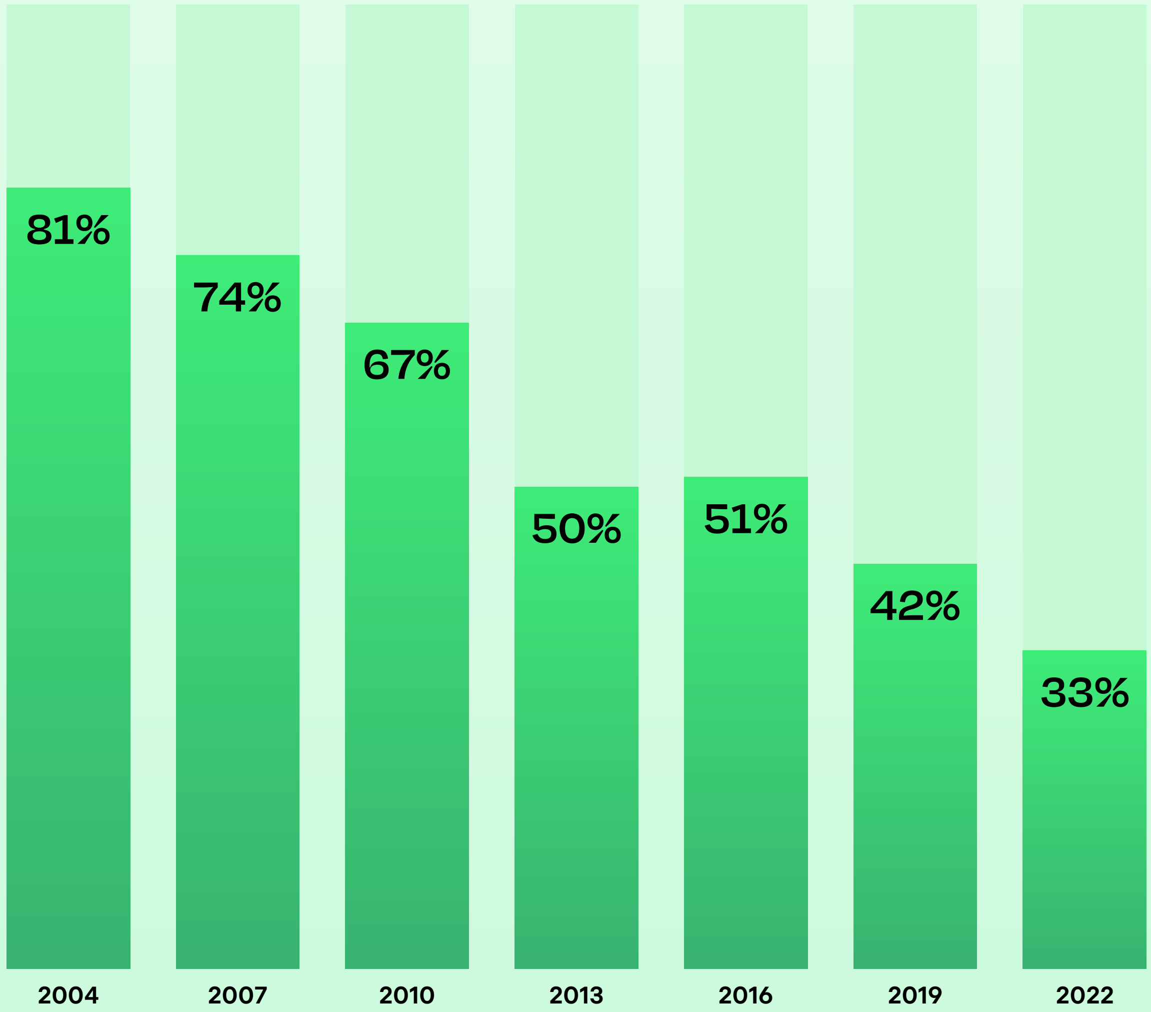
Embracing credit cards and virtual credit cards, which often align with fast payment processes, can streamline operations and foster stronger relationships with your buyers. By prioritizing buyer preferences, you gain a competitive advantage and minimize the risk of buyer attrition.

Checks quickly becoming a thing of the past

While checks are a relatively inexpensive option for suppliers, they have their disadvantages. The hard costs of using checks include bank lockbox fees, value-added keying fees, and (if applicable) outsourced cash application. They are also the slowest form of payment and the most prone to fraud.

Although they still make up a big piece of all payments, **paper check usage continues to decline** for business-to-business (B2B) payments in the U.S. and Canada, falling to an all-time low[1] of 33% in 2022, down significantly from 81% in 2004.

Percentage of Organizations' B2B Payments Made by Checks: U.S. and Canada[2]



Credit cards are accelerating payments faster than ACH

Data shows that customers pay more quickly with credit cards versus ACH or check payments. In recent years, Billtrust analyzed 212,000 online payments across 335 B2B enterprises who paid 791,000 invoices in order to understand how fast they made online payments.

The analysis clearly showed that credit cards are significantly accelerating payments. The average invoice paid online with a credit card took only 21 days to pay vs. 30 days for an ACH payment. That's almost 10 days faster.

Virtual card usage is gaining traction with buyers

Although virtual credit cards have been around for two decades, only recently we have seen remarkable growth of virtual card usage among buyers. By 2026 an anticipated €6.7 trillion in virtual card transactions is projected.[3]

Virtual cards with their temporary card numbers offer a range of benefits. Enhanced security is a primary advantage, safeguarding transactions for B2B buyers.

Additionally, virtual cards streamline the procurement process, granting buyers greater flexibility. They can generate distinct cards for different vendors, each with customized spending limits and controls, ensuring efficient and tailored transactions. Integration with digital systems and payment platforms further empowers B2B buyers, enabling seamless automation and optimization of their payment processes.

Average days to pay

30 days

ACH

21 days

Credit card

Global B2B payments continue to grow

A recent study[4] from Juniper Research found the global transaction value of the B2B payments market will exceed $111 trillion by 2027, up from just over $88 trillion in 2022. This growth of 26% over the next five years is a result of rising prices caused by inflation and strong economic growth in developing markets.

Despite these huge numbers, only a small percentage of these payments are conducted using payment cards. The majority of B2B transactions still rely on slower methods such as ACH, bank transfers, direct debits, and checks.

Meeting Gen Z's expectations

Generation Z (often referred to as Gen Z) represents the demographic cohort born roughly between the mid-1990s and the early 2010s. As the first true digital natives, they have grown up in a world heavily influenced by technology, social media, and instant connectivity. Gen Z expects seamless and user-friendly digital payment experiences that align with their digital lifestyles.

Research[5] conducted by Billtrust has revealed that digital payment acceptance plays a significant role in Gen Z's decision-making process, with 74% stating that a brand or retailer accepting new forms of digital payments positively impacts their perception of the brand. 20% of Gen Z have never used a paper check — and 36% of them reported not using one in the past six months.

Gen Z's credit card debt is rising three times faster than other groups. They love to pay with credit cards and delay payment. As Gen Z enters the finance world, many will likely expect suppliers to seamlessly accept credit cards and virtual credit cards.

20%

of Gen Z have never used a paper check.

Cards make a lot of sense for buyers

> Increasing numbers of B2B buyers are recognizing the advantages of utilizing credit cards and are actively incorporating credit card programs into their operations. Not only do credit cards have real, tangible benefits for buyers, they also address various payment pain points.

Potential float

Justin Main, Vice President of Integrated Payments at Billtrust: "For buyers, a major benefit is the potential float. By using credit cards for vendor payments, buyers can take advantage of extended payment terms. For instance, if a vendor offers a timely discount program, buyers can secure the discount while deferring the credit card bill payment for an additional 30 to 45 days. This allows companies to retain your funds in your bank account, providing greater financial flexibility, while still meeting your vendor's requirements."

Businesses can choose to pay off the credit card each month or be more flexible and defer payment for one or more billing cycles – although that potentially comes with a higher cost depending on negotiated interest rates. In times of reduced cash flow, card payments will allow many buyers to pay their suppliers when they otherwise could not.

Convenience

Credit cards offer a convenient way for transactions and are accepted almost everywhere. Credit cards enable buyers to process payments regardless of their geographic location. This broad acceptance ensures smoother transactions and eliminates barriers related to payment methods

Enhanced security

Justin Main: "While I honestly don't think that AP departments are that concerned with fraud, paying by ACH is a risk because a bank account and routing number is being provided to another system. The same risk is there with credit cards, but issuers offer stronger fraud protection compared to debit cards, checks or cash. A whole chargeback system kicks in when buyers suspect fraudulent behavior."

Virtual credit cards[6] provide an even higher level of security, preventing unauthorized usage through features like one-time use and immediate blocking. For instance, once the randomly-generated number of the virtual card is passed to the supplier, they can only charge it one time for the exact amount of the payment.

Access to rewards and perks

Owning a credit card can offer significant benefits, including the opportunity to earn rewards. These rewards can come in various forms such as points or miles, which can be redeemed for discounts on products, reduced fares for flights, hotels, and rental cars.

Alternatively, credit card rewards can also take the form of cashbacks, providing you with financial incentives for your purchases. "Companies are potentially getting rebates from the bank that's issuing the card. So if the spend is a million dollars, companies may get 1% of that back if it's on the card. So there's a lot of incentive for buyers to use credit cards," says Justin Main.

Flexibility and control over spending

Credit cards grant buyers greater flexibility and control over their spending. They can manage their expenses more effectively and tailor their purchases according to their specific needs. Card payments can also be easily tracked at month-end with an electronic statement.

Justin Main: “Before virtual cards, AP departments began issuing purchasing credit cards to their employees, especially for sales people on the road. However, the spending control was limited, relying on basic measures like Merchant Category Codes (MCCs) to restrict certain expenses. “For instance, salespeople could use the card to pay for hotel rooms but not a movie theater. Virtual credit cards take spending control to the next level. With virtual cards, companies have complete assurance that the spend is exclusively allocated to a specific vendor for an exact dollar amount. Additionally, companies gain extensive visibility into the details of each transaction, empowering them with comprehensive reporting on when and how their money was spent.”

Enhanced buyer-supplier relationships

Using credit cards accelerates payment and fosters better relationships between you and your buyers. It reduces back-and-forth communication and friction in the payment process, leading to more streamlined and efficient interactions. In challenging times, great buyer-supplier dynamics should be at the forefront of every organization.

Simplified processes for AP teams

Providing employees with (virtual) credit cards simplifies the accounts payable (AP) processes within organizations. Processing check payments is time-consuming to say the least. The streamlining of payment procedures improves days payable outstanding (DPO), enhances working capital, and reduces costs.

Unlock data insights

With the growing prominence of credit cards, including virtual cards, valuable data insights are being generated. This leads to expedited reconciliation in both accounts receivable (AR) and AP processes. A prime illustration of this is the alignment of itemized data points with individual transactions.

Navigating credit card challenges and overcoming obstacles

We have discussed the growing popularity of credit cards and virtual cards among business buyers, as they strive to simplify payment procedures, enhance efficiency, and optimize cash flow management. The adoption of cards not only facilitates faster payments but also offers buyers greater flexibility.

However, it is important to recognize that **challenges and potential obstacles** exist when it comes to credit card acceptance and payments.

Interchange fees are too high

Credit card processing[7] fees are the costs you must pay when you accept a credit card payment. These fees are not fixed and may include payments to multiple parties. The largest portion of these fees is allocated to interchange fees, which are levied by the banks that issue the credit cards and the credit card networks (e.g., Visa or Mastercard). These fees have the potential to affect the profitability of transactions and decrease the overall revenue for suppliers.

Overly manual processes for card payments

The average B2B card payment takes an AR professional a couple of minutes to process and apply. This is because most card payments are coming through email and phone calls that your staff must be available to answer. Virtual credit cards, designed for enhanced security, often require you to receive payment details via email and manually log in to a portal to process the payment. This can add complexity to the payment process and increase the risk of errors or delays.

Reconciling credit card payments

Matching credit card payments with open invoices can be challenging. The manual effort required to reconcile payments with specific invoices can be time-consuming and may lead to discrepancies or delays in account reconciliation.

Failed payments

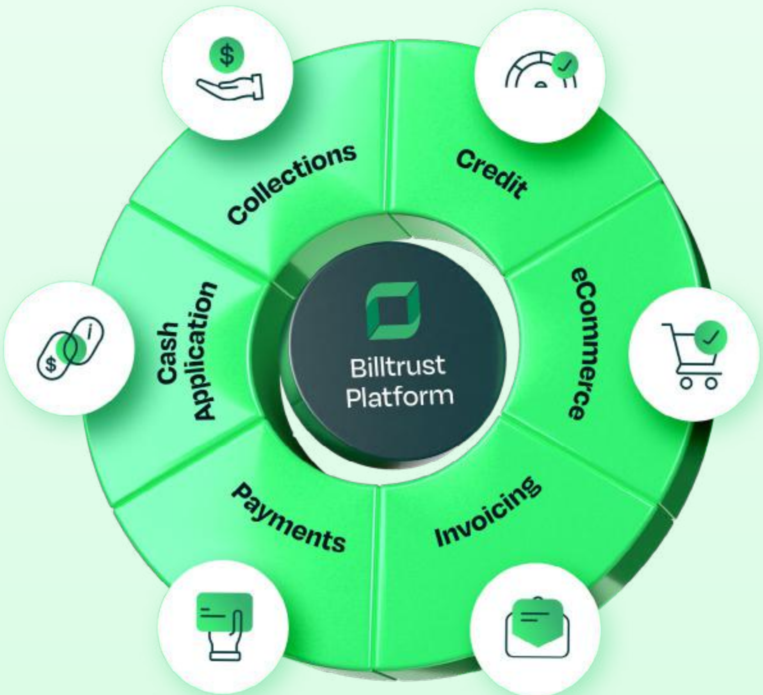
You may encounter issues with failed payments due to expired cards or incorrect data entered during the payment process. This can result in delayed or unsuccessful transactions, causing disruptions in cash flow.

Chargebacks

Credit card chargebacks occur when a buyer disputes a transaction, leading to a reversal of the payment. You may need to navigate chargeback disputes, provide evidence of the transaction's validity, and potentially incur losses if the chargeback is successful.

Integration issues with AR or ERP systems

The remittance data from credit card payments may not integrate smoothly with AR or enterprise resource planning (ERP) systems. Even though credit card payments come with remittance advice attached, most ERP systems cannot automatically apply the cash to open invoices.



“What companies truly need is a unified solution.”

JUSTIN MAIN
VP INTEGRATED PAYMENTS
BILLTRUST

A unified expert solution is the smart choice

To address these challenges, it is advisable to implement strategies that minimize their impact. It is common for suppliers to lack the necessary tools for accepting digital payments, such as cards. However, there is a solution: implementing automation technology, specifically **utilizing a third-party infrastructure.**

This approach can assist in managing (virtual) credit card payments effectively, helping you achieve straight-through-processing of these payments and save resources that would otherwise be diverted to the manual task of matching payments to open invoices.

The **importance of teaming up with the right expert payments partner** in getting this infrastructure to work, cannot be overstated, says Justin Main. "B2B suppliers need a third-party provider, a gateway and a back-end processor to facilitate seamless transactions. However, the key lies in choosing a provider that can offer all the channels through which you sell. Whether customers place orders via phone or your eCommerce site, having a centralized platform to process, view, and manage all orders in one place is crucial. Consolidating operations allows for comprehensive visibility and reporting across various channels.

"What companies truly need is a **unified solution,** avoiding the complexity that arises from dealing with multiple fees, policies, and technologies. By partnering with an all-in-one provider like Billtrust, companies can effortlessly consolidate all aspects of their operations, and at the same time keep costs down.

"Just think about all the AP systems out there pushing credit cards or virtual cards. AR teams need to process them all and, if possible, ensure Level 2 and Level 3 data for all transactions. Billtrust does that, and more. Companies can empower customers with a self-serve payment portal, and payment links are coming soon. Advanced business rules like early pay discounts can be implemented, as well as inclusion/exclusion lists and surcharging. In addition, policies can be automatically enforced instead of relying on employees to know every policy."

Actionable tips to encourage credit card payments

Encourage buyers to transition towards increased credit card payments with the following suggestions:

1. **Play within the credit card company's rules.** "From a merchants perspective, the downside to credit cards is clearly processing fees. Interchange makes up the largest portion of that fee, and running a program that reduces those fees is critical. Interchange rates can be offset by submitting card transactions with Level 2 and Level 3 information. They command lower interchange rates because credit card issuers have more confidence in the transaction being legitimate. Making sure that its tech stack can identify and pass Level 2 and Level 3 information is critical for B2B suppliers," says Justin Main.

2. **Set up a time-based payments acceptance policy** where buyers can make credit card payments within a window that makes sense. For example, instead of paying by check 60 days after invoicing, change the payment terms to 20 days when paying by card.

3. **Restrict credit card usage** for invoices over a certain threshold. Credit card payments require less manual work to process and apply than ACH or check, but for invoices above a certain dollar amount, the saved time and energy may not be worth the interchange rates.

4. **Add surcharging**[8] to offset credit card processing costs, but do it carefully. Sophisticated technology is now putting surcharging in reach for suppliers.

5. **Deal with email payments in a smart way,** says Justin Main. "Typically, the process for virtual card payments involves receiving an email as an AR clerk. The email specifies the amount of money being paid, the item or list of invoices being covered or may include a link for further information. However, the full payment with a credit card number is not provided in the email. Instead, you are required to log in to a portal to access the necessary details.

   "Managing credentials across numerous portals, often with hundreds or even thousands of usernames and passwords, becomes necessary. Once logged in, you need to navigate and locate the complete card number. Occasionally, a lodged card may be used, where only a portion of the card number is provided, and you must match it with the remaining digits. The payment amount will be precise to the penny, and the remittance information will be included.

"Next, you have to manually input the entire card number and associated information into your system. Then, you need to translate the payment information into the appropriate format to determine the actual amount paid. This process can be extremely cumbersome, particularly when dealing with a large number of buyers and complex invoice sets that involve discounts and other factors.

"At Billtrust, we use robotic process automation (RPA) to look at the most common issuing templates. Our software is able to go in, open and view them, pull the extract and combine all that into remittance, while processing the payment at Level 2 and Level 3."

6. **Give customers access to invoices and payments.** Providing an online payment portal enables payment rules to be enforced while lowering administrative costs and ensuring PCI compliance.

7. **Mandate paperless invoicing** for customers that like to pay with a credit card.

8. **Negotiate with buyers.** For instance, if a large medical supplier said they were going to turn off credit card payments because it was costing them millions of dollars, a large buyer might be unhappy. In this case, a third-party tech provider could step in and negotiate a lower overall interchange rate between the two parties. This custom rate allows everyone to still share in the benefits of a transaction, economic and otherwise.

9. **Maximize straight-through processing.** Accepting credit cards is a great accelerator for order-to-cash or invoice-to-cash processes. One example: both ACH and wire transfers lack the space afforded for remittance data. Virtual payment cards have no space limits for remittance information, so transaction details can be customized to your system. By capturing the remittance early in the payment process — when the invoice is paid — manual processing can be eliminated and reconciliation goes way faster. This opens up the possibility of straight-through processing and lower overall cost of invoicing for suppliers and their buyers. Buyers can directly import payment data into their AP automation software, while suppliers have the data ready to ingest into your system of record or ERP.

“The faster you can get paid, the faster the buyer’s credit line is replenished.”

JUSTIN MAIN
VP INTEGRATED PAYMENTS
BILLTRUST

Supplier-buyer dynamics

In an ideal world you shouldn't have to convince many of your buyers to pay with a card. They have all the incentives to do that, says Justin Main. "I recommend suppliers think about it in this way: **the faster you can get paid, the faster the buyer's credit line is replenished.** Buyers value this credit advantage, as it allows them to leverage your products or services to generate more revenue and grow their businesses. By enabling them to accumulate credit, you create a favorable scenario where they are more likely to purchase more from you.

"And having all the buyers payment data in one place offers **insights into buyer behavior,** such as payment trends within specific industries or segments. This data helps protect your business and enables you to make informed decisions, such as extending larger credit lines to customers in booming sectors. In the end you want them to buy from you and not your competitors.

"Consider **implementing a referral program** where buyers are rewarded for bringing in new customers. This strategy benefits both the buyers and your business, fostering loyalty and expanding your customer base.

"Additionally, **integrating payment systems and implementing AP automation** enhances trust and simplifies the management of buyer payment relationships. Streamlining these processes at scale is achievable through a **many-to-many approach,** where AR and AP platforms work seamlessly together. This eliminates the need for manual one-on-one integrations and maximizes efficiency, unlike with EDI (Electronic Data Interchange) where its one-to-one nature lacked scalability and practicality for smaller businesses and many-to-many connections."

Understanding the leverage you have

In the end it all comes down to leverage, says Justin Main. "If you're a critical supplier to some customers, meaning they rely on you for essential business operations and have limited alternatives, it makes sense for you to adopt a customer-friendly policy. This policy can involve offering the convenience of keeping a card or bank account on file. In many cases, using a card as a payment method allows for efficient transactions, helps maintain a clean credit line, and simplifies the process for both parties.

"However, it's important to recognize that not all customers will be receptive to this approach. Some customers may prefer to explore other options, even if similar services are available from your competitors. It's not advisable to try to force such customers into accepting your policy.

"Differentiating between these two types of customers is crucial. Large enterprises often have significant bargaining power. In such cases, they can leverage their influence to negotiate favorable terms and even dictate certain requirements, such as keeping payment information on file.

"Understanding the leverage you have with your buyers is a critical aspect of your strategy as a supplier. This knowledge enables you to tailor your policies and approach to different customer segments, ensuring optimal business relationships and outcomes.

"Setting up a really good process with credit card payments is a win for both parties, buyers and suppliers. As a supplier you're not getting late payments, because you have their card on file. On the other hand, the buyer is comfortable with that because you don't have direct access to their operating account, which they could be using for other things."

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ABOUT BILLTRUST

Billtrust is a leading provider of cloud-based software and integrated payment processing solutions that simplify and automate B2B commerce. Accounts receivable is broken and relies on conventional processes that are outdated, inefficient, manual and largely paper based. Billtrust is at the forefront of the digital transformation of AR, providing mission-critical solutions that span credit decisioning and monitoring, online ordering, invoice delivery, payments and remittance capture, invoicing, cash application and collections.

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