WHITE PAPER

The payments spectrum

What are the current options for B2B buyers and sellers, and what's a potentially better model?

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Executive summary

The greatest challenge for B2B businesses is optimizing cash flow while accommodating customer payment preferences. There is a spectrum of available payment options available, each with its own tradeoff between speed, ease of use and cost.

The current B2B payments spectrum consists of three segments:

CHEAP AND SLOW
Check and ACH

MODERATELY-PRICED AND FAST
Credit cards

EXPENSIVE AND INSTANTANEOUS
Third-party guarantors

If managed correctly, with the right AR technology, there's opportunity to expand the use of credit cards in B2B accounts receivable. Beyond this lies the developing possibility of third-party guarantors, including fintech providers, who will enable nearly instantaneous payment.

Introduction

For a B2B accounts receivable (AR) technology solutions provider, the secret of success lies in making it easier for B2B companies to get paid.

Billtrust has spent 20 years striving to perfect accounts receivable through software and services that provide automation of business-critical AR processes. The greatest challenge for B2B businesses, as we see it today, is optimizing cash flow while accommodating customer payment preferences.

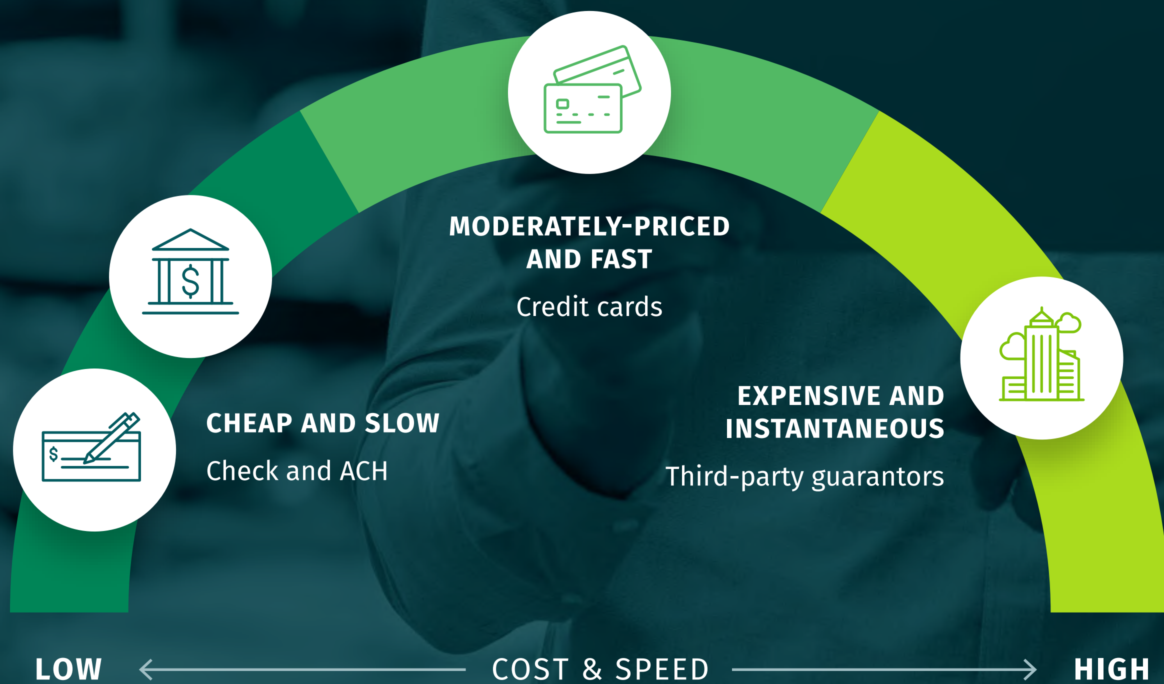
In this paper, we will explore the current B2B payments spectrum that consists of three parts: Cheap and slow (check and ACH), moderately-priced and fast (credit cards), expensive and instantaneous (third-party guarantors).

In this landscape, it's the payments tech stack that provides the most flexibility and agility to buyers and their suppliers that will become the dominant payments tech stack.

50%

of buyers will use AP providers to handle their payments by 2025, so suppliers are facing a major oncoming challenge.[1]

The B2B payments spectrum



1

Cheap and slow: Checks and ACH

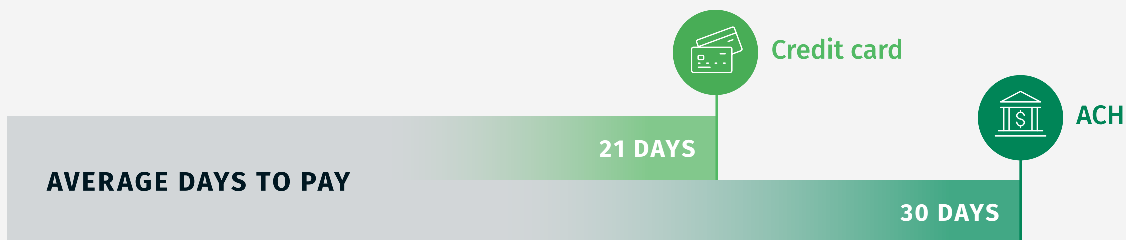
Paper checks are a relatively inexpensive option for buyers and accounts payable (AP) providers, but they have their pitfalls. The hard costs of using checks include bank lockbox fees, value-added keying fees and (if applicable) outsourced cash application.

Checks are the most prone to fraud and the slowest form of payment. The extended time between transmission of cash and cash application reduces both the buyer's buying power and hampers the supplier's sales potential. Additionally, there is the risk to working capital posed by bounced checks.

Some may know the acronym ACH, but not that it stands for Automated Clearing House, a U.S. financial network used for electronic payments and money transfers. Companies like to use ACH payments because it's a way to transfer money from one bank account to another without using cash, credit card networks, paper checks or wire transfers.

Suppliers get their money faster with ACH payments than they do with checks, but they have to hunt for remittance data in emails or AP portals, and sometimes the data is never sent at all. Hard costs include ACH transaction fees, and there is a risk to working capital posed by claw-backs or insufficient funds, so payments transmitted are not always guaranteed. Additionally, suppliers must share their bank information with every buyer that wants to push ACH payments to them, which poses a security risk.

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 card payments are paid faster than ACH payments. The average invoice paid online with a credit card took only 21 days to pay vs. 30 days for an ACH payment.

2

Moderately-priced and fast: Credit cards

Credit card processing fees are the costs a supplier must pay when they accept a credit card payment. These fees are not fixed and may include payments to multiple parties. On average, suppliers will pay between 1.8% and 2.5% of the total value of the transaction in fees.

In every credit card transaction, there are three parties that may charge suppliers a fee:

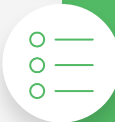
- **The credit card issuer:** This is the financial institution that issues the card.
- **The credit card network:** These are the companies that facilitate the transaction between the issuer and the merchant.
- **The payment processor:** This is the company responsible for securing and carrying out the transaction.

Interchange rates make up the largest portion of the fee; these go to the issuer to fund cardholder operations and rebates.

Interchange rates are based on a number of factors:

NETWORK

Each of the four major credit card networks charges a different interchange rate and these rates are subject to change.



MERCHANT CATEGORY CODE (MCC)

These four digit numbers classify the types of transactions a cardholder is making; these classifications can be influenced by the category of the supplier's business.

DATA LEVELS

Credit card processing is categorized by three levels of data: 1, 2 and 3. Each level describes a certain amount of information about the payment. Level 1 includes the least information and Level 3, the most. Transactions with more information can command lower interchange rates because credit card issuers have more confidence in the transaction being legitimate.

76% of B2B customers prefer payment by credit card and ACH/wire transfer.[2]

Accounts receivable (AR) automation is making credit cards easier and less expensive to accept for AR teams.

There is a slightly adversarial relationship when it comes to credit cards between accounts receivable and accounts payable. At Billtrust, as an AR automation provider, we try to help make that relationship more amicable by facilitating lower interchange rates with issuers.

We believe there is a **sweet spot for suppliers and the vast majority of their buyers** when it comes to processing fees. In a later section of this paper, we'll explain how we're working to get there.

Suppliers tend to fall into one of two categories:

- **Accept** credit cards and credit card fees as part of their business structure. They may hate it, but they shoulder the significant costs because their customers want it.
- **Reject** credit cards; it's too expensive, and they opt to shut down the payment channel.

Why should suppliers accept credit cards?

There are a myriad of reasons that suppliers should take credit cards.

For one example: Many of our customers are in the building supply industry. They are distributors and wholesales that serve contractors.

These contractors don't receive money from their own customers until they have finished a project. The float that they can get on their credit card, and the ability to spread out payments over the long term or even pay just the minimum for a time if necessary, is core to the survival of their business. Suppliers have to accept credit cards from these customers or risk not selling to them at all.

In this way, credit cards have generated much more commerce than would have existed without them. They have been extremely effective in driving commerce around the world - especially in the United States - and are responsible for a significant amount of B2B commerce.

If managed correctly, with the right technology, there's more opportunity to expand the use of credit cards in B2B while minimizing the overall cost that traditionally falls solely on the merchant.

Making credit cards cheaper

There are three main ways to find middle ground on processing fees. All three rely on state-of-the-art AR automation technology to make credit cards cheaper.

1. **PLAYING WITHIN THE CREDIT CARD COMPANY'S RULES**

   Delivering better information through Level 2 and Level 3 processing. More detailed payment data leads to lower rates because credit card companies are more confident in the legitimacy of the payment. Sophisticated AR automation technology can make L2 and L3 processing easy. Additionally, AR automation can enable **batching payments** which also leads to lower rates.

2. **NEGOTIATING 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.

3. **SURCHARGING**

   Adding a fee to cover the costs of accepting a payment has traditionally been difficult to execute due to regulatory considerations. But sophisticated technology is now putting surcharging in reach.

Traditionally, surcharging has been **a complex process,** as there are many steps companies must complete to attain and maintain compliance. Not only are there differing state-by-state regulations, surcharging is also constrained by being permissible only when using certain types of banking identification numbers (BINs) or types of credit cards. There are hundreds of different variations, and you can only legally execute surcharging on a subset of those.

If the average effective rate for a supplier taking credit cards in a business today is 3%, they could surcharge 3% or subsidize that and split the difference with their customers. This is another way to get to that middle ground: Where the supplier would be willing to pay up to 1% and then pass anything additional onto their buyers. It keeps buyers happy and still allows everyone to enjoy the benefits of credit cards.

Billtrust is innovating within this space by reframing surcharging as a service. We take on the risk and responsibility of executing surcharging correctly and legally across our omnichannel platform. So our customers can execute surcharging everywhere they take payments, and can do so compliantly and with confidence.

Large suppliers and credit cards

Currently, there's an interesting dynamic playing out where very large, cash-rich suppliers that pay massive bills want to use credit cards. They are not necessarily motivated by the float, since the cost of money today is relatively low for those huge buyers, but about the rebate.

If a supplier can spend $100 million and receive 1.2% of it back because of the card mechanism used to pay it, that's a huge benefit for them. This makes for very motivated buyers that will often agree to faster payment terms in exchange for acceptance of their credit card payments.

35%

of businesses report high processing costs as a major challenge with traditional payment methods.[3]

Expensive and instantaneous: Third-party guarantors

The last stop on our payments spectrum involves the participation of third-party guarantors of payment; the use of a lender, in other words.

Presently, it's possible to obtain individual invoice financing, account underwriting and general third-party outsourcing of credit lines. There is a lot of movement and advancement underway in this space, as the data that can be used to make underwriting decisions is far richer than in the past.

Traditional credit agencies generate credit lines based on 20-year-old models. However, now there are many new fintech companies who draw on much more data than was previously possible. They can see who is in an applicant's sales pipeline or CRM and use that data to decide whether or not to underwrite them.

This visibility into a buyer and their financial health is significant; it's increasingly possible to observe a wide range of data that has never shown up on a credit report before. **It allows lending in situations that would not have been possible in the past.**

For example, imagine you are a supplier that has used traditional credit underwriting to allow your buyer a credit line of up to $10,000. They've already purchased $10,000 worth of goods, but you haven't been able to deliver them yet due to supply chain issues. They need to purchase more, but your credit line won't allow you to sell to them.

Now, what if a third-party was able to look at buyer's data, their payment history and what they had in their pipeline, and they told you that they would be happy to underwrite a $20,000 line of credit? And they would guarantee payment day 1?

That is a very appealing offer: you get to sell more and you get day 1 DSO. That's a new development in the payments space an it has the potential to completely change the game.

It's also worth margin. How much will need to be determined by the market and the technological capabilities of these new third-party players. But it is definitely worth margin to sell more and get guaranteed day 1 payment – that's indisputable in most industries.

And it's an option that is already available in a small way, but it's poised to get very big.

Conclusion and recommendations

When you view payment channels in a spectrum like the one we've laid out in this paper, it's obvious that payments technology is giving suppliers more control over their cash flow. They can push their buyers into slower, but lower margin payment channels like ACH and checks. They can accept faster payments with moderate margins like credit cards. Or they can embrace emerging payments channels with higher margins and instant payment.

Suppliers are in control, despite the pressure they may feel from their buyers. And technology companies like Billtrust are working to make the faster payment channels cheaper for suppliers.

The faster and cheaper we can make B2B payments, the easier it will be for suppliers to make decisions about their payment acceptance strategies.

This space is evolving fast. Keep track of new developments and innovations. And stay informed about what savvy technology companies like Billtrust can do for your payment acceptance process and cash flow.

Over 60%

of finance professionals say their businesses have suffered vendor payment and invoice processing delays after going remote.[4]

79%

of CFOs say the pandemic influenced the decisions to speed up innovation; the same CFOs said it had driven SMB adoption of updated payments systems, including digital solutions.[5]

ABOUT THE AUTHOR

Justin Main is Vice President of Integrated Payments at Billtrust. Justin's team delivers world-class B2B payments software experiences to Biltrust's customers and their buyers, as well as overseeing payment operations within Billtrust's service offerings.

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ABOUT BILLTRUST

Billtrust (NASDAQ: BTRS) 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. For more information, visit Billtrust.com.

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