B2B PAYMENT TRENDS 2023

Paying suppliers by card

swipe2b

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Introduction

The global economic environment continues to apply pressure on businesses to reduce costs and improve operational efficiencies. In the MENA region, banks' adoption of Real Time Payments and the decriminalization of bounced cheques has led to a steady migration of supplier payments from cheques to EFT in recent years. Businesses, however, are now beginning to take the migration to electronic payments a step further by implementing card payment programs which not just further automate their payment processes, but transform their A/P departments from cost centers into profit centers.

While commercial credit cards have been around for some time, their use has been limited to travel expenditure and bill payments. Even though general supplier payments have not been considered 'cardable' expenses till recently, acceptance rates are increasing dramatically, thanks to advances in Supplier Enablement and Straight Through Processing (STP) technology.

This paper will explore the current state of B2B supplier payments, how commercial credit cards work and how businesses can benefit from commercial card use when paying suppliers.

Commercial cards continue to gain popularity around the world, but MENA is the fastest growing region with 12.5% CAGR . Commercial cards were first used for supplier payments in MENA in 2016.

Source: Capgemini, World Payments Report 2022

Supplier Payments

In the context of payments, there are several terms used today that may appear interchangeable, but aren't. One such example is *Supplier Payments* and *B2B Supplier Payments*.

What's the difference?

While a *Supplier Payment* is a payment made to a *Supplier* who is either a corporate entity or an individual (eg. an independent consultant or a marketing freelancer), *B2B Supplier Payments* are payments made only to *Suppliers* who are registered corporate entities. This is an important distinction, as payment methods and processes available (with your bank) will vary for each. In this paper, we shall be discussing the use of credit cards to make B2B supplier payments.

Need for modernization

Supplier payments have traditionally been seen as a *tug-of-war* between DSO and DPO, or rather, between the payer and payee's cash flows. A late payment benefits the payer at the expense of the supplier's working capital, while an early payment benefits the supplier but puts pressure on the buyer's cash flow.

In addition, payment methods used to make supplier payments have been limited to EFTs, cheques and cash for domestic transactions, and EFTs and L/Cs for cross border purchases. However, all of these payment methods are merely *methods* to move money from buyer to supplier, with no working capital benefit.

The ideal solution, therefore, is one that transforms a supplier payment into one that benefits both buyer and supplier simultaneously.

Card Payments

A win-win solution

While credit cards are by no means a new concept, in the MENA region using them to pay suppliers is. Commercial credit cards have the potential to transform the game for both the buyer and supplier as they continue to gain popularity as a supply chain finance tool. In contrast to traditional supply chain finance, a commercial credit card program has the potential to be an end-to-end automated mechanism that not only provides the line of credit to the buyer, but also the automated disbursement of payment to the supplier with confirmation back to the payer's ERP for auto reconciliation.

The last few years has seen the introduction of Virtual Cards for B2B payments. As single-use cards, these are designed to maximize security and are limited to the value of the specific invoice being paid; making reconciliation easier, with one unique card per transaction.

However, 'card-to-bank' solutions like ***swipe2b*** have made it even simpler to pay suppliers with any kind of card; irrespective of it being virtual, physical, issued by any bank or branded by any card scheme.

Regardless of the type of commercial card used, making card payments to suppliers offer a number of benefits over traditional payment methods, including:

- **Faster payment**: With solutions like ***swipe2b***, credit card payments are processed instantly and credited into the supplier's bank account in less than 24 hours. This helps expedite the supply chain and improve overall efficiency of both businesses.

- **Reduced costs**: Credit card payments are free to make and don't incur any costs to the buyer, such as check printing, bank or wire transfer fees. Depending on the volume of payments each month, this can lead to significant cost savings for the business.

- **Improved cash flow**: With an average of 55 additional days' of interest-free credit, commercial credit card payments offer improved working capital for the buyer, the unlocking of suppliers' liquidity through early payments and the capability to make more regular and frequent payments; all necessary factors to enable businesses to better manage their cash flow. This is especially beneficial for SMEs that may have limited access to credit and are more vulnerable to cash flow volatility.

- **Automation**: Card payments to suppliers using solutions like ***swipe2b*** not only eliminate the need to manually process EFT or cheque payments, but also allow auto-reconciliation within the buyer's ERP, saving a significant amount of the finance team's resources, that can be redirected towards more strategic and important tasks.

- **Cash-back**: Most commercial credit cards offer a cash-back (rebate) on the total spend. This is similar to what people usually enjoy with their personal or consumer credit card usage, except a higher spend volume translates to a larger cash-back amount when it comes to B2B supplier payments. This can very quickly add up to a significant overall amount generated by the A/P department every month.

Why pay suppliers by card?

74%
Faster invoice processing speed

22%
Less time spent responding to suppliers

80%
Saving on invoice processing cost

55
Days interest-free credit

10x
Less fraud versus manual payments

Source: Billentis 2016 E-billing/E-invoicing Report, Ardent Partners – AP Metrics That Matter, Institute of Finance and Management

Straight Through Processing (STP)

Fast, accurate and secure

STP is a term used to describe the automation of financial transactions, including the payment of suppliers by credit card. STP involves the use of technology such as *swipe**2b*** to automate the card payment process, making it easy for both the payer and supplier, eliminating the need for manual intervention and minimizing the risk of errors or delays.

With STP, businesses can securely automate payments to suppliers by credit card either from within their existing ERP system or trigger via an external platform. STP can also be used to automate the reconciliation of payments made, allowing businesses to track and manage their spend and cash flow in real-time, without the need for manual and time consuming processes.

There are several benefits to implementing STP and paying suppliers by card:

- **Improved efficiency**: STP significantly reduces the time and effort required to process supplier payments, freeing up resources for other more important tasks.
- **Enhanced accuracy**: STP minimizes the risk of errors or discrepancies in the payment process, leading to increased accuracy and fewer disputes.
- **Greater transparency**: STP provides businesses with real-time visibility into their spending, allowing them to better track and manage their cash flow.
- **Reduced risk**: STP reduces the risk of mis-directed or fraudulent payments associated with EFT. With card payments, suppliers are set up with a special purpose merchant account from which funds can only be sent to the supplier's designated bank account. Funds can't be redirected to a different account without prior authorization and verification.

What's the ROI?

Paying suppliers by credit card can have a significant impact on the bottom line of a business. While there may be upfront costs associated with implementing certain types of programs, such as those for virtual card programs, most are free and the long-term benefits can be substantial. These benefits include:

- **Reduced costs**: Credit card payments are made without incurring any fees to the payer, leading to significant cost savings for the business, as opposed to other payment methods, such as EFT.

- **Automation**: STP significantly reduces the time and effort required to process supplier payments, freeing up resources for other tasks.

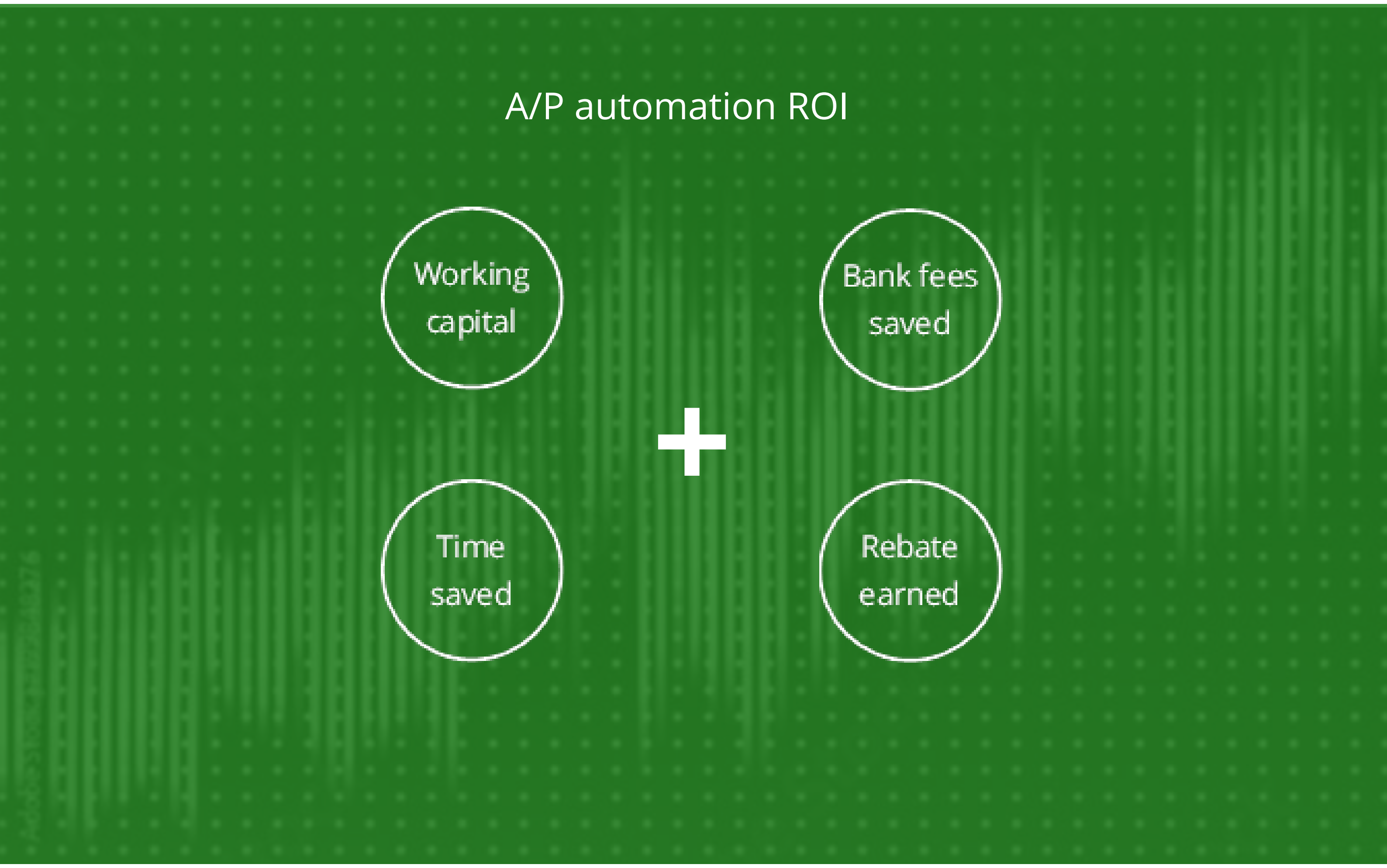
- **Enhanced cash flow**: With 55 days of interest-free credit offered on commercial credit cards, businesses are able to pay their suppliers early and more frequently, providing a working capital 'free float' to finance other activities within the organization and allowing them to better manage their cash flow.

- **Strengthened supplier relationships**: By paying suppliers early, businesses help their suppliers' liquidity, which in turn strengthens their relationship and places them in a more favorable position with the supplier, unlocking benefits such as special terms, pricing and early payment discounts.

To calculate the ROI of paying suppliers by credit card, businesses should consider the following factors:

- **Time**: The true cost of processing a supplier invoice can be as much as AED 150. By switching to card payments, businesses can eliminate the time it takes to prepare, execute and send a cheque or EFT payment to a supplier, reducing the overall invoice processing cost by up to 80%.

- **Working capital**: With an average of 55 days' further credit, businesses can leverage additional working capital made available to them (interest free), via their commercial credit card.
- **Savings**: This includes cost savings resulting from the elimination of any bank or wire transfer fees, as well as any early payment discounts offered by suppliers.
- **Cash-back**: Most commercial card programs offer a cash-back as a percentage of the total spend. The exact percentage varies from bank to bank, and is typically disbursed on a quarterly basis.



Supplier Enablement

It isn't enough to obtain a commercial credit card from your bank – your suppliers need to be able to accept cards too.

Most B2B card programs and banks focus on issuing a card, ignoring the fact your suppliers need to be able to accept card payments in the first place. Whilst there may be some suppliers who already accept card payments, the vast majority of your B2B suppliers do not; as they continue to receive their payments via traditional methods such as EFT, cheque, cash, etc.

Supplier Enablement refers to the process of equipping suppliers to be able to accept card payments from customers like you. A successful supplier enablement program is one that's borne out of extensive B2B payment experience and consists of supplier communication, a quick and easy onboarding process and ongoing customer support.

'*Card-to-bank*' solutions like ***swipe2b*** provide an end-to-end service, enabling suppliers who don't accept cards to start accepting card payments directly into their bank account within days. Once set up, all payments are instant, automated and don't require any physical tapping, swiping or punching in of card details.

"We had been looking for a solution to help us leverage our commercial card program, by making payments to regular suppliers – even those that didn't have the ability to accept cards. With Swipe2B, we achieved that"

Marriott International

Conclusion

A shift is taking place in the way businesses pay their suppliers. The need for a business to have real-time visibility and control of their cash flow, along with the quest for speed and cost efficiency, has led companies in the MENA region to shift away from cheques to electronic payments.

While Electronic Fund Transfers (EFTs) offer a significant improvement over cheques as a payment method, businesses continue to push for further efficiency in their payment processes, along with the need for better liquidity management for themselves and their suppliers.

Paying suppliers by credit card with solutions like *swipe**2b*** offers several advantages over traditional payment methods, such as interest-free working capital for the payer, early payment to the supplier, speed, security and automated reconciliation.

In contrast to conventional methods of supplier payments, the commercial credit card is rapidly gaining acceptance across the MENA region as a supply chain finance tool *with* built-in payment automation, rather than just another method.

"Swipe2B has provided us with an alternative financing option, where we can pay our suppliers early and benefit from a generous extended credit period at the same time"

Doosan Babcock

"At Mastercard we are proud to have collaborated with Swipe2B to introduce an e-invoicing and e-payment solution that delivers cash flow improvements to Small & Medium Enterprises, Large Corporates and Government entities"

Mastercard

About Swipe2B

Swipe2B is a technology company focused on providing automated payment solutions for Accounts Payable and Accounts Receivable workflows and working capital efficiency. With some of the world's most renowned corporations as its clients, every day, companies of all sizes rely on Swipe2B to pay and get paid securely and efficiently.

Swipe2B powers the economy through frictionless B2B transactions that unlock liquidity, digitize processes and strengthen buyer-seller relationships.

www.swipe2b.com

For more information on our AP and AR automation solutions, contact us at info@swipe2b.com