Capturing B2B Spend on Commercial Cards is More Important Than Ever

Corporates have renewed interest in reexamining usage of their B2B card program to offset falls in their travel spend and rebates while looking for new ways to support their suppliers, many of which face challenges gaining access to liquidity.

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The COVID-19 crisis has resulted in a dramatic decline in business travel. Many companies instituted a travel ban during the initial months of the pandemic and any recovery in travel activity is likely to be slow and cautious. Travel spend is often a significant contributor to a corporate's commercial card rebate, and rebates are often an important source of revenue for operations, so companies are looking for ways to bridge the gap.

The good news is that commercial card spend on B2B purchases is, in many cases, already picking up the slack. Working from home has resulted in many companies increasingly sourcing online, where cards are a natural fit for eCommerce transactions as they are fully integrated into online platforms. Furthermore, difficulty in accessing traditional payment systems has put a greater emphasis on straightforward, easy to manage payments. Commercial card payments fit the bill perfectly!

Commercial card payments to B2B suppliers have a further string to their bow. The steep decline in economic activity as a result of the pandemic has put particular pressure on SMEs, which are often a major part of corporates' supplier base. Sources of working capital have become more costly or even disappeared entirely for some SMEs, especially in emerging market countries. Many suppliers are therefore eager to get paid timely, regardless of the method.

Corporates are keen to support their suppliers to safeguard their supply chain. As a result, companies are reassessing their supplier base to understand whether suppliers currently paid by other methods are willing to accept card payments, so they can be on time or in many cases earlier than usual. Of course, at the same time, corporates paying suppliers by card gain the days payable outstanding (DPO) benefits of card payment and shore up their card rebates – everyone wins.

Making the switch

Historically, card payments to suppliers have faced an acceptance barrier: some suppliers (especially smaller companies) were unwilling to accept cards because they would incur processing costs from their bank (in contrast, receiving a payment via ACH is free). However, given the working capital challenges many suppliers have faced in recent months, an increasing number are now changing their mind: predictability and immediacy of payment rather than cost has become their priority.

To accept card payments, companies need to work with their bank or a merchant acquirer. While Citi does not offer this service, it works with a number of acquiring partners. Putting the infrastructure in place to accept payments is straightforward. A physical POS terminal is no longer needed to accept payments, and many acquirers have software solutions that can be set up in less than a day. For buyers, one of the key attractions of migrating B2B spending to commercial cards is that provided the supplier already has a program established, there are no additional costs.

While many suppliers have recently come round to the idea of receiving payment by card, the processing costs associated with this mean that they usually expect a change in terms. Fortunately, the working capital benefits of card payments for buyers, including both the billing cycle (the time until the bill is due, which is usually monthly) and the payment term (which might be 25 days, for example), give buyers substantial leeway to make changes and create a win-win situation for both buyer and supplier.

A company wanting to maximize its DPO could take the full float from the billing cycle and the payment terms. However, in the current environment with corporates wanting to support their suppliers, many are agreeing to earlier payment terms and using the Citi credit line available through their card program to maintain their DPO ratios. Consequently, instead of receiving an ACH payment on day 30 or 60, suppliers will now receive a card payment (which settles in two days) on day 10 or 15. The working capital benefit to the supplier mitigates the processing costs associated with receiving the card payment.

Working with the holdouts

Despite the change of mind by many suppliers to accept card payments, there are some that simply do not want to accept them because of the discount fees associated with their use, and instead insist on being paid via alternate means.

The advent of payment facilitators can help to solve this challenge. A payment facilitator can work as the merchant in a transaction by charging the buyer's card, then remitting the actual funds to the end supplier using ACH, wire, or even a check. The seller is paid in full, and the discount fees normally borne by the seller in a credit card transaction, are paid by the buyer. The payment facilitator marks up the transaction amount to account for the fees, and many buyers are willing to pay the transaction fees because it widens usage of the card program, offsets costly supplier onboarding especially for long tail suppliers, and the buyer still retains any working capital and financial incentives associated with the card program. One company that Citi works with has adopted the payment facilitator model in recent months specifically to support the liquidity needs of its supply chain partners during the COVID-19 crisis.

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Conclusion

The economic uncertainty associated with the COVID-19 crisis is expected to continue for some time. In addition, business travel is likely to remain subdued well into 2021. Consequently, many companies are looking for opportunities to migrate more of their B2B spend to commercial cards and to avoid missing spend thresholds and their annual rebate payout.

Regardless, the payment trends unleashed during the recent turbulent period are unlikely to be transient. They reinforce an existing trend: the migration of B2B spend to card has been gathering pace over the past decade. The attractions of certainty of payment, enhanced visibility of data flows, improvements in procure-to-pay process efficiency, enhanced working capital and potential rebates earning remain undimmed.

What is new in the current environment, is the increased willingness of suppliers to accept card payments. Although it is too early to be certain, this change could become ingrained as suppliers come to appreciate the wider pool of buyers that they can reach by being more flexible in the range of payment types they accept. Moreover, ongoing economic uncertainty is likely to ensure that access to liquidity remains a greater priority for SMEs than costs in the foreseeable future. B2B card spend therefore looks set on an unstoppable growth trajectory.

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