BANK OF AMERICA

A New Approach to B2B Card Programs

Introduction

Historically, commercial card programs have focused primarily on capturing travel and entertainment (T&E) expenditures. In recent years, organizations have sought to leverage the same efficiencies and benefits of their T&E card programs with their business-to-business (B2B) payments, as well. Though card use cases for travel are typically straightforward, identifying card-accepting B2B suppliers tends to be more challenging.

When seeking suppliers for card payment, organizations often take the approach of ranking card-accepting suppliers by spend and then reaching out starting at the top. While this approach has been somewhat successful in countries with high card acceptance rates, it does not take into consideration the relationship between the buyer and supplier.

This White Paper explores the challenges of the current approach and suggests new criteria for identifying B2B card opportunities that are beneficial to both the buyer organization and the supplier.

The traditional approach – too much focus on big spend

Card as a payment method is traditionally buyer-centric. How can we get more spend, thus more rebate? How can we use card to improve our DPO (Days Payable Outstanding) and working capital? This internal focus is what drives organizations to seek suppliers who have potential based on spend.

While rebate and working capital improvement may be of interest for finance departments, the emphasis on spend often ignores the practical processes through which demand for goods and services are satisfied. As a result, card expansion projects that focus solely on spend ultimately fail to deliver the benefit expected because they eliminate specific categories of spend, types of suppliers, user groups or commodity groups. When an organization focuses on spend, they tend to ignore the "buying channels" and technical capabilities of those channels that are typically available to an organization.

KEY TAKEAWAYS

1

A spend-led approach to identifying targets for card programs is likely to miss key opportunities.

2

Supplier motivation, technology and preferences should be considered before targeting for card.

3

Like suppliers, card solutions vary. Make sure to determine which solution is best for each supplier.

80–90% of spend is made with 10–20% of suppliers

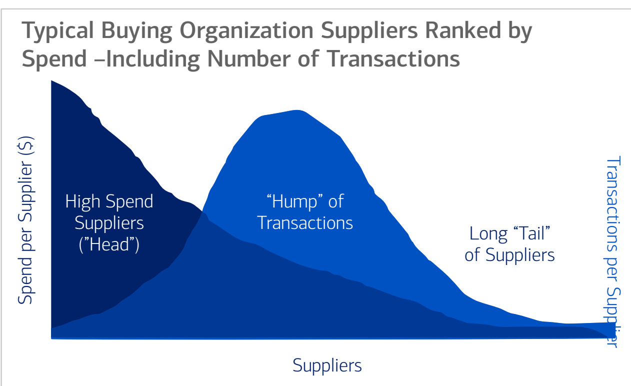
Limitations with the historic approach to targeting B2B

- Focusing on spend
- Targets based solely on the Buyer benefit (ignoring the supplier)
- Reliance only on physical card solutions

Additionally, when the focus centers on how card benefits the buyer, the targeting of potential suppliers does not take into account the specifics of an individual supplier. For example, consider two suppliers who are both enabled to accept card through their website, payment portal or virtual terminals.

> **Supplier A** has a strong eCommerce channel and conducts the majority of their business online. For this supplier, issuing an invoice, receiving payment and reconciling their account may be a minority business process that they would prefer not to continue. Supplier A easily sees the process automation benefit of card acceptance, especially for buyers with high volume, low value transactions.
>
> **Supplier B**, on the other hand, has less volume, but larger value transactions. Though they can accept card, the efficiency and automation gain is not as high so they are not as willing to accept the cost associated with card.

It's very important to consider the nature of a supplier's business, and the value and volume of their transactions when conducting a card program expansion effort.



40–60% of total transaction volume can be found in the Hump

This is typically from only 5–10% of the companies' suppliers, which can represent strong opportunities for card-based solutions

Moving to a transaction-based focus, enables the unique relationship the buyer has with their suppliers to be taken into account, and identify higher probability targets that can help drive a successful B2B program.

A new approach – more focus on volume (and spend)

As established above, focusing on spend alone is often an inefficient way to identify suppliers who can and will accept card for B2B payments. Analysis shows that typically only a few suppliers account for the majority of transactions processed in buying and Accounts Payable (AP) organizations; and because of the high volume, each of these transactions tends to be relatively low in value. Interestingly, the suppliers with whom an organization spends the most money are rarely the same suppliers that the organizations transact with the most frequently. The relationship between suppliers, spend and transaction volume typically looks like this:

Notice that the high-spend suppliers are also low frequency. These suppliers, known as the "head" in this visual, may account for only 5–10% of all transactions, but they have a large impact on the financial performance of the buying organization. Conversely, the "tail" consists of low-value, low-volume suppliers. These transactions are typically low-risk, ad-hoc purchases. Elimination of the cost of managing the "tail" in terms of administration and vendor data management is a goal of most large organizations.

In between the "head" and the "tail" lies the "hump." The "hump" signifies a relatively small number of suppliers who account for the majority of transaction activity, but they are often neglected when organizations are seeking to move suppliers to card.

Bringing it all together – the right tool for the right type of supplier

If we take the spend curve and the transaction curve, and then consider which commercial card solutions are best suited to which spend/transaction combinations, a valuable picture emerges. Consideration should be given to fitting the right tool to the right supplier for realization of mutual benefits.

Card as a settlement tool

High-value, low-volume suppliers (the "head") should be considered for virtual card payment on improved terms. Suppliers will benefit from earlier payment and buyers will benefit from improved working capital.

Card as an enablement tool

Low-value, high-volume suppliers (the "hump") should be considered for card payment within eProcurement systems. This enables transaction level settlement and reconciliation for all parties by delivering rich remittance advice to the supplier and card data to the buyer.

Card as a purchasing tool

Low-value, low-volume suppliers (the "tail") are ideal suppliers for the physical card. Use of Corporate or Purchasing cards for low-risk goods or services that do not require a PO or invoice allows for convenience without the costly PO management process.

Area	Summary	Buyer Benefit	Supplier Benefit	Opportunity Areas	Card Solutions
Settlement Tool ('Head')	• No process change • Change to payment method only	• Working Capital • Rebate opportunity	• Accelerated Payment	• Significant buyer extending payment terms with smaller supplier • Supplier with need for accelerated cash flow	Virtual Cards
Enablement Tool ('Hump')	• Additional ERP Payment Type • Supports automation initiatives • New Auto-reconciliation management processes	• Complements eProcurement deployments (Ariba, Coupa etc.) • Process efficiency and cost reduction • Streamlined reconciliation • Improved contract compliance • Working capital • Rebate opportunity	• Process improvements through automation and reduced errors • Improved cost of collections and manual intervention • Potential accelerated payment • Improved buyer relationships • Streamlined reconciliation	• High transaction volume Buyer/Supplier relationships • B2B eCommerce focused suppliers • Integrated contingent labor management systems	Virtual Cards
Purchasing Tool ('Tail')	• Physical plastics • Buyer procurement policy & supplier acceptance driven	• Elimination of PO's and Invoices • Ease of use for End-Users	• Payment with Order • Simple A/R process	• Low value, low risk, ad-hoc demand for goods or services	Physical Cards

Summary

The traditional approach of only considering card for suppliers with the most spend or those who you would categorize as "tail spend" leaves out a key segment of suppliers. This smaller group of suppliers in the "hump" offer a great deal of efficiency gains due to the high number of transactions. Shifting from a spend focus to a value + volume focus allows the realization of greater benefits for both buyer and supplier.

More information

A small tweak to your approach can improve the success of your company's B2B card program. If you would like to unlock the full benefits of your B2B program, speak to your relationship manager at Bank of America to learn more about how we can help you get the most value from your B2B payments.