

# B2B PAYMENTS

THE FOUNDATIONS OF BUYER AND SUPPLIER PAYMENTS

# 101



## B2B PAYMENTS

# The transactions that drive business

When thinking of payments, the focus tends to be on business to consumer, or B2C, transactions. However, the payments ecosystem expands beyond consumers – businesses require goods and services to operate.

Businesses often transact in amounts that far exceed purchases made by consumers through a more complex payments system. Goods and services needed by businesses can be as varied as the industries they serve, and may include the procurement of raw materials, supplies, energy, transportation or professional services.

In order to acquire the items or services a business needs, an organization must purchase directly from another business. On the other side of that transaction, the business that supplies the goods or services is a seller to this commercial customer.



This document provides a practical overview and understanding of the complex B2B (business-to-business) payments landscape. It outlines the payment methods available for B2B transactions, and provides businesses with the knowledge needed to make smart payment decisions.

## THE THREE TRUTHS

# What businesses should know

### ONE

## Businesses are both buyers and suppliers

While businesses sell goods and services, they must also act as buyer to obtain necessary resources.



### TWO

## There are various B2B payment options

Businesses can evaluate and choose the methods that best meet their needs.

### THREE

## The B2B payments ecosystem is in transition

Businesses are more frequently using electronic methods, including payment cards, to buy or sell goods/services.

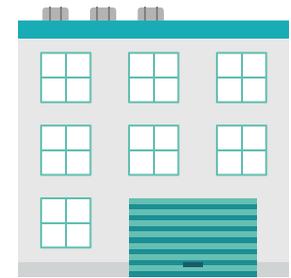
## B2B PAYMENTS ECOSYSTEM

# How B2B payments work

In B2B transactions, there are business buyers and business suppliers.

### BUYER

▶ A buyer is any business that purchases goods or services for commercial use



A supplier is any business that supplies goods or services for commercial use

### ◀ SUPPLIER

In any given transaction, one business, the buyer, is purchasing goods and services from another business, the supplier.

As stated previously, a business exists to sell a good or service and also needs to purchase materials and services in order to operate. We refer to this interconnected system of buyers, suppliers, and their shifting roles, as the B2B payments ecosystem.

The following examples demonstrate how a business functions using B2B payments, illustrating the ecosystem in motion.

## B2B EXAMPLES

# A closer look at the system in motion

### EXAMPLE ONE

## Wheat & Grain Canada

Wheat & Grain Canada is a mid-sized grain producer. The organization plants and cultivates wheat, which is ultimately transported and transformed into food products for consumers.

To operate and obtain the resources it needs to harvest its crops, Wheat & Grain Canada must purchase supplies and services from other businesses. To tend the fields, they buy tractors and machinery from a specialized manufacturer of farm equipment. In these cases, Wheat & Grain Canada is the buyer, obtaining goods from its suppliers.

Subsequently, Wheat & Grain Canada sells their grain product to other processors, such as grain elevators or wheat mills, who further facilitate the breakdown of the wheat and transform it into flour. In these circumstances, Wheat & Grain Canada is the supplier, obtaining payment for their wheat products.



### EXAMPLE TWO

## CAN Accounting

CAN Accounting is an accounting firm that works directly with mid-sized businesses. The business helps clients prepare financial statements, file tax returns, and provides audit and valuation services.



CAN Accounting staff require technology to do their jobs and meet client demands. Therefore, the organization is a buyer of technology equipment, such as computers, printers and telephones, and the business technology merchant is the supplier.

When working with clients, CAN Accounting provides its professional accounting services to various businesses in exchange for a fee. In these transactions, CAN Accounting is the supplier of accounting services, and the business client who receives the accounting services is the buyer.

## B2B PAYMENTS OPTIONS

# How businesses pay and get paid

The way money is exchanged between buyers and suppliers impacts the business operations for both sides of the transaction.

In today's Canadian B2B economy – which is valued at \$2.8 trillion<sup>1</sup> – businesses can transact using traditional paper-based methods like the cheque, or through digital means including electronic fund transfer, wire transfer, commercial payment card and ePayables.

### CHEQUE

An order of direction given by the cheque writer to its financial institution to pay another party a certain amount.

### ELECTRONIC FUND TRANSFER (EFT)

A system of transferring funds from one bank account directly to another account electronically, through banking computer systems.

### WIRE TRANSFER

An electronic service that allows large sums of money to be sent between two bank accounts or through cash transfer at a cash office.

### COMMERCIAL PAYMENT CARD

A physical, plastic card that allows goods and services to be procured for business purposes.

### ePAYABLES

A virtual payment card – the card does not exist in the physical, plastic card form, and only exists electronically, yet still has a 16-digit card number, expiry date and CVC (card verification code).

The payment type chosen is affected by what the supplier is set up to accept, as well as how the buyer would prefer to pay.

These choices affect a business' bottom line, as they impact working capital, risk, efficiency and business costs, so an understanding of all options is essential.

From the perspective of a supplier, the following chart outlines how to maximize the factors that will positively affect the business while minimizing costs and risk.

<sup>1</sup>Visa Commercial Consumption Expenditure Index; Economist Intelligence Unit (EIU) modelling and analysis, October 2014

## B2B PAYMENTS

# Consider your options

		RISK	COST	WORKING CAPITAL	EFFICIENCY
IDEAL	 <b>BUSINESS GOALS</b>	LOW	LOW	HIGH	HIGH
	 <b>CHEQUE</b>	HIGH	MEDIUM	LOW	LOW
	 <b>EFT</b>	LOW	LOW	MEDIUM	MEDIUM
	 <b>WIRE TRANSFER</b>	LOW	HIGH	MEDIUM	LOW
BEST	 <b>COMMERCIAL PAYMENT CARD</b>	LOW	MEDIUM	HIGH	HIGH
	 <b>ePAYABLES</b>	LOW	MEDIUM	HIGH	HIGH

### RISK

The potential that payment will not be received for goods and services provided. More secure payments lead to lower risk.

### COST

The full economic cost that a business incurs to collect payment and earn revenue. Lower costs lead to higher revenue.

### WORKING CAPITAL

Liquid money available to a business for use in day-to-day operations. Faster payments lead to higher working capital.

### EFFICIENCY

Operational and employee effort required to complete the transaction. Higher efficiency leads to improved business processes.

## B2B PAYMENTS LANDSCAPES

# Where B2B payments are headed

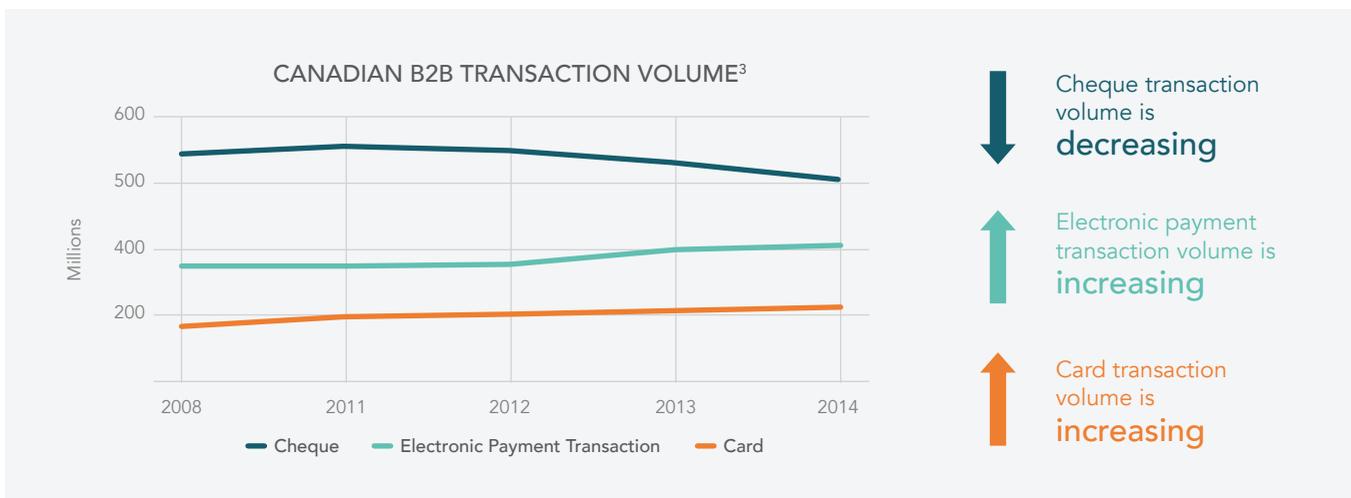
While businesses have many factors to consider when examining payments, decisions are also affected by the broader payment landscape.

Innovations in digital technology have placed a greater emphasis on electronic payment methods. However, their adoption has not occurred equally in the B2B and B2C markets.

For B2C, businesses are striving to meet consumer demand for innovative payment options. Methods like contactless and mobile payments are rapidly increasing in use. In Canada, the total amount spent via contactless payments has more than doubled year over year<sup>2</sup>.

On the other side, the B2B payment marketplace has lagged behind in this electronic shift. Currently, approximately half of B2B payment transactions use cheques, while electronic fund transfers and payment cards make up the other half<sup>3</sup>.

**However, B2B buyer demand for digital payment options is increasing given business benefits and there is a growing trend toward digital payment adoption in this sector.**



The prevalence of the cheque is an indication of the B2B market's slower shift to newer, digital payment methods. By contrast, in the consumer market, cheques make up only 5 per cent of transaction volume<sup>4</sup>.

While the shift has taken longer, the B2B payments landscape is indeed evolving as businesses adapt to a more digital world.

<sup>2</sup> MonerisMetrics, Q3 2016. (2016, October 20).

<sup>3</sup> Canadian Payments Landscape - Prepared for the Task Force Payments System Review, Deloitte & Touche LLP, (September 2010); Canadian Payments Association, Annual Statistics 2012-2014; Bank of International Settlements, Statistics on payment, clearing and settlement systems in the CPML countries, Canada - Figures for 2014, December 2015 Note: data and assumptions are from multiple sources and should only be relied on directionally

<sup>4</sup> Tompkins, M. (2015, December). Canadian Payments Association Discussion Paper No. 4 - December 2015 (Discussion Paper). Retrieved November 1, 2016, from Canadian Payments Association website: <https://www.payments.ca/sites/default/files/2015-canadian-payment-methods-trends.pdf>

## KEY TAKEAWAY

# Optimize your payments

In a world of digitization, B2B payments have begun to catch up in the movement towards electronic transactions.

Many buyers are ready to pay with digital forms of payment – and in particular, payment cards – to collect business benefits like higher security, extended payment windows, rebates and loyalty points.

From the supplier perspective, payment card acceptance offers several direct benefits:



### Faster Payments

Suppliers can receive payments as soon as the next business day, which allows the business to capture the value of money faster, and increase their working capital. Accepting other payment methods, such as cheques, can mean waiting up to 60 days to receive payments.



### Improved Process

Accepting card payments helps streamline collections and saves time spent setting up new customers by eliminating background checks. It also helps improve the reconciliation of Accounts Receivables processes through automation and reporting.



### Reduced Risk

Receiving payment by card reduces the risks associated with accepting cheques, providing payment certainty, faster payment and access to funds.



### Increased Sales

Offering convenient payment options, like payment cards, can help suppliers expand their customer base, and buyers using commercial cards may have increased buying power.

This e-book aimed to help examine your approach to payments, with the goal of helping your business improve operations and keep up with customer demands.

There are ways to optimize your payments and realize business benefits. A Moneris® representative can help find solutions that make sense for your organization.

**To learn more, please call 1-866-943-8929 or visit [moneris.com/B2B](https://moneris.com/B2B).**

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