

Industry Perspective

A B2B Merchant Acquiring Primer: How merchants can benefit by focusing on B2B business

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Credit | Emerging_Technologies

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At no time since 3Delta Systems was founded 11 years ago have I been more excited about the prospects for the business-to-business (B2B) merchant acquiring business. Here's why.

Several macro, decades-long trends are underway, driving massive change in B2B payments and merchant processing.

First, a wave of automation and business process improvement is moving through organizational Accounts Payable/Accounts Receivables functions. Business process improvements and payment methodologies are converging – specifically, card-based payment systems are blending with Accounts Payable applications. Just as the need to boost business efficiencies and productivity drove manufacturing improvement in the 1970s-1980s and procurement automation and supply chain management in the 1980s-1990s, this AP/AR convergence represents a major opportunity for payment system expansion and card system growth over the next decade.

Second, B2B payments are undergoing a seismic shift from paper to electronic form, moving away from checks to ACH and payment cards. Digitized invoices with detailed remittance data are being linked to their corresponding electronic payments so that tracking and managing them throughout the entire order-to-payment cycle is seamless. Receiving audit reconciliation information directly from the merchant electronically rather than having to attach invoices or annotate purchase transactions manually also leads to better auditing capabilities. Driving this shift are treasury and payment professionals as well as standards-setting bodies, such as NACHA and the AFP.

Third, card issuers and buying organizations are moving toward "buyer-initiated" payments. As purchase cards (p-cards) enter their third decade of use, companies are increasingly relying on them for standard micro-purchases of less than several thousand dollars each. Yet, growth so far has been at the lowest rungs of the corporate payments ladder – often 5% or less overall. Buyer-payers have experimented with alternative ways of making larger payments on these cards, but only after traditional invoices have been submitted, reviewed and OK'd for payment. This buyer-initiated card payment, or electronic accounts-payable card transaction, sets the stage for massive growth in p-card volume for the foreseeable future.

Why does this matter to merchant acquirers? For starters, 200% - 500% growth opportunities.

Does this potential exist in consumer/retail payment processing? No.

Studies show that consumers continue to pay off credit card debt while either reducing purchases in general and/or shifting their means of payment.

A May 2010 paper from the Philadelphia Federal Reserve entitled, Trends and Preferences in Consumer Payments: Lessons from the Visa Payment Panel Study, observes:

"...credit card spending in the first quarter of 2009 was down 9 percent over the same period in 2008, while debit card spending was up 5 percent. Some people have interpreted this change as a shift from credit to debit, but ...consumers have curtailed the type of spending for which they normally use credit cards (discretionary), while nondiscretionary spending, for which consumers tend to use debit cards, continues even during recessions."

ACH Transactions o Number of ACH payments:

o 19.1 billion

o Value: \$37.2 trillion

o Annual growth rate of transactions from 2006 to 2009: 9.3%

Credit Cards (consumer focus – edit added)

o Number of credit card payments: 21.6 billion

o Value: \$1.9 trillion

o Annual rate of decrease in transactions from 2006 to 2009: 0.2%

Debit Cards

o Number of debit card payments: 37.9 billion

o Value: \$1.5 trillion

o Annual growth rate of transactions from 2006 to 2009: 14.8%

Prepaid Cards

o Number of prepaid card payments transactions: 6.0 billion

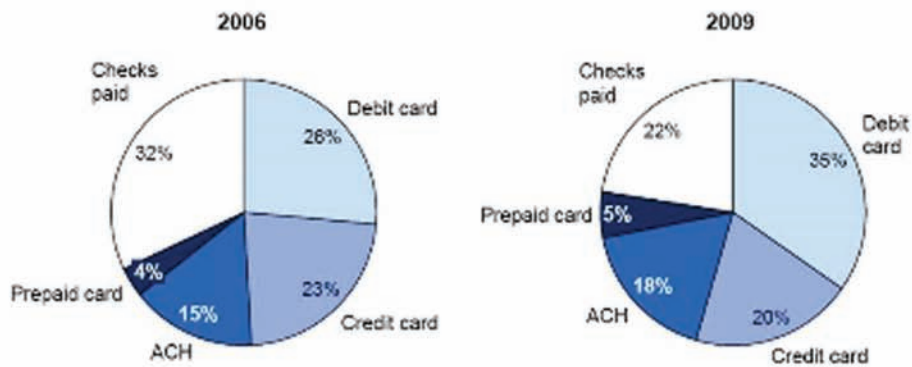
o Value: \$0.1 trillion

o Annual growth rate of transactions from 2006 to 2009: 21.5%

2010 Federal Reserve Payments Study

December 2010

Exhibit 2: Distribution of the Number of Noncash Payments



http://www.frbservices.org/files/communications/pdf/press/2010_payments_study.pdf

Yet, B2B merchants – also known as "suppliers" to corporations and government agencies that use purchase and payment cards – remain under-served in a wide-open "green field" market opportunity, ripe with possibility for profits with reasonable margins.

These metrics from Visa, MasterCard and Mercator illustrate a strong growth trend in commercial corporate cards:

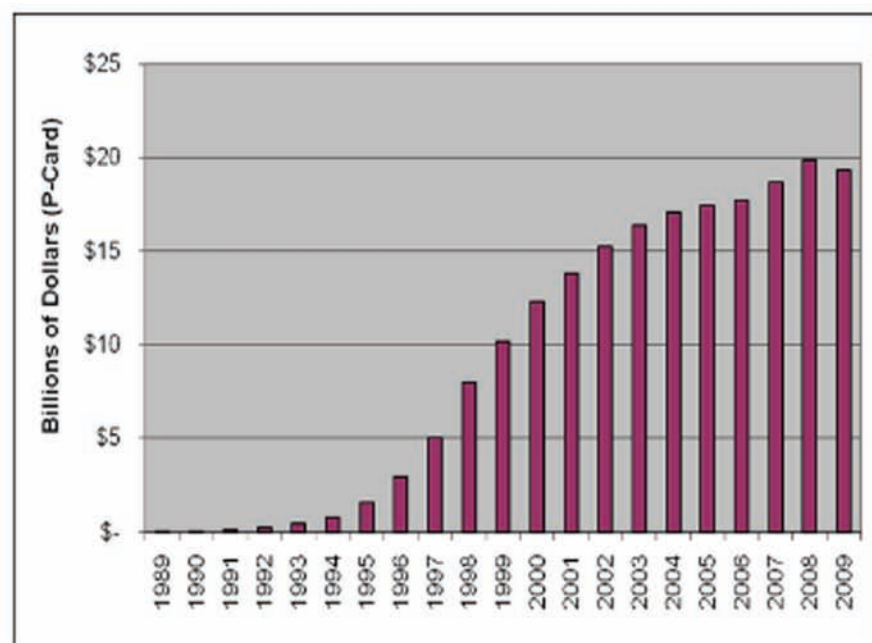


Visa & MasterCard Commercial Card Products in the U.S. Purchase Volume 2008						
	Visa		MasterCard		Total	
	(Bil.)	Chg.	(Bil.)	Chg.	(Bil.)	Chg.
Small Business	\$143.88	8.4%	\$78.97	6.7%	\$222.85	7.8%
Credit	\$93.00	5.6%	\$59.10	3.3%	\$152.10	4.7%
Debit	\$50.88	13.8%	\$19.87	18.2%	\$70.75	15.0%
Purchasing	\$62.32	18.0%	\$34.25	5.3%	\$96.57	13.2%
Corporate	\$19.31	7.3%	\$14.40	-31.2%	\$33.71	-13.4%
TOTALS	\$225.51	10.8%	\$127.62	0.1%	\$353.13	6.7%

Debit includes prepaid. Purchasing includes fleet. © 2009 The Nilson Report

Growth in the federal government's p-card program, GSA-SmartPay, is also surging.

Based on government metrics for FY2009 p-card expenditures posted from our own tracking website, www.GSA-Smartpay.com, a total of 269,913 federal p-card holders spent \$19.317 billion via 21.8 million transactions for goods and services.



Corporate card payments are poised for even greater growth as higher-dollar, buyer-initiated payments flow faster in the future.

My advice for merchant acquirers: the B2B market represents a rich, wide-open opportunity. It's also a more complex business environment that requires more a consultative approach than with retail.

Understanding the nuances of this market as well as suppliers' business and customer requirements before recommending a particular payment processing solution will be the keys to profitability.

About 3Delta Systems and Aaron Bills: Aaron Bills is founder and chief operating officer of 3Delta Systems. 3Delta Systems, Inc. [<http://www.3dsi.com>] is a payment solutions company that delivers the power of secure, Internet-based purchase and credit card processing solutions to enterprise, business-to-business (B2B) and business-to-government (B2G) customers. 3DSI's complete suite of payment solutions – each designed from the ground up to be scalable, easy to implement and conform with PCI Data Security Standard best practices – enables merchants and buyers to manage, authorize and settle payment transactions in real-time. As a leading Software-as-a-Service (SaaS) provider, 3DSI has processed more than 41 million payment transactions worth over \$36 billion dollars for over 6,000 corporations and government agencies since the company was founded in 1999.

Visit the 3Delta Systems Website: <http://www.3dsi.com/>