



A MASTERCARD MARKET INTELLIGENCE REPORT

New Opportunities in B2B Payments

Perspectives on creating value for middle-market companies





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Executive summary

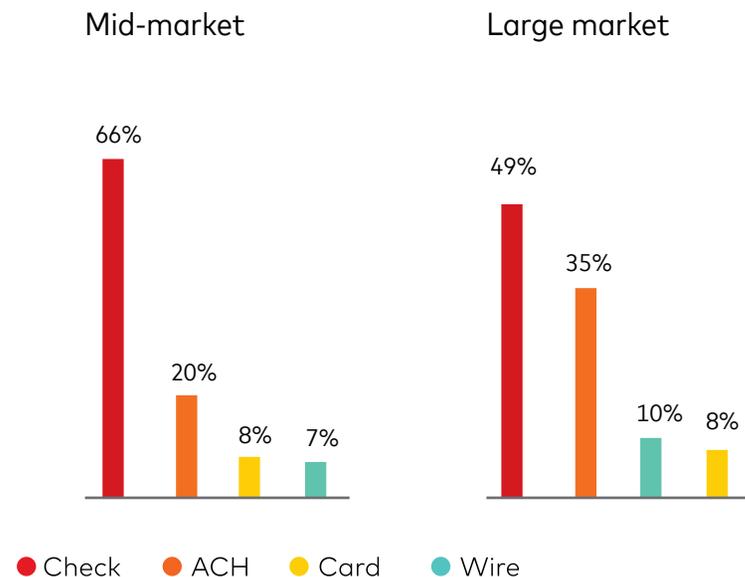
Accounts Payable (AP) is a complex process for the mid-market—a large and growing segment—representing a great opportunity for banks. Challenges exist throughout the AP process, from matching invoices with payments to executing payments. Despite their inefficiencies, checks have long dominated B2B payments, comprising 50% of the \$25 trillion payment volume in the U.S.; mid-market companies make more than two-thirds of their payments by check. Although checks are not the sole source of the problem, their prevalence has been a prime source of AP challenges. Financial institutions are well positioned to address these inefficiencies by offering additional solutions that help streamline AP, take costs out of the system, and increase revenue for middle-market companies.

AP automation has emerged as the answer to the problem. It addresses the pain points of mid-market companies by streamlining invoice processing and payment execution, including invoice approval workflow software, accounting system integration, and data analytics.

Despite strong interest, adoption of AP automation tools remains low, especially by mid-market companies. Early adopters are sourcing solutions from fintechs; however, mid-market corporations have indicated a strong preference to source these solutions from their trusted bank partners.

This report will detail the opportunities, pain points and implications of AP automation. To learn more about the Mastercard point of view on B2B payments, see our accompanying Narrative on the topic.

Percent of payment transactions made in the U.S., 2016



Source: *Paystream Advisors, Electronic Payments Report, 2017*



Visibility and cost define Accounts Payable pain points

Mid-market concerns with current payment systems



Lack of visibility into invoices and AP documents

45%

Corporate directives to lower costs

44%

Difficulty finding or managing paper-based documents

39%

Inability to effectively manage cash according to current business needs

19%

Risk of payment-related fraud

13%

Difficulty handling high amounts of supplier inquiries

12%

A survey of mid-market companies shows that the number one pain point with current payment systems is visibility, followed closely by concerns on the direct cost to make payments.

Providing users cost savings and efficiency improvements is key to driving business forward, as well as sourcing technologies and partners that are able to support buyers that are using different accounting platforms and solutions.

Financial institutions need to be well-positioned as trusted payment partners for mid-market companies and offer solutions to meet their automation needs—or risk losing them to fintechs.

Source: Deloitte, "Payments For the Middle Market," 2016 Survey of 500 mid-market companies



Technology creates new opportunity

Accounts Payable automation describes ways in which making payments and processing invoices are improved through technology, including invoice approval workflow software, cloud services, and data analytics. It may include Internet-based invoice and receipt submission, algorithms and database software solutions, approval routing, data validation and controls to accept or reject requests, all of which can streamline payment processes and approvals.

The technology implements two-way and three-way matches by capturing data through optical character recognition (OCR), which converts scanned images and text into business- and payment-relevant data.

This information is then checked for consistency and compliance before being routed to central accounting departments for verification, processing and archiving.

AP automation addresses end-corporate pain points by:



Automating for "anytime, anywhere" access to invoice and payments data with electronic invoice management and AP workflow automation technology integrated with current accounting systems.



Facilitating 100% of domestic supplier payments across all payment types (e.g., virtual card, ACH and check) through a single interface.



Supporting direct engagement with suppliers to identify their preferred payment type and verify payment information.



Enhancing value-added options for virtual card and ACH payments, including enriched remittance data, so suppliers can more easily reconcile payments.



Offering real-time payment details with a full history of the life of a payment, invoice image associated with the payment, and details of when the payment was issued and received.



Benefits of Accounts Payable automation

Companies that have adopted AP automation have already seen economic benefits and process improvements. When organizations were asked, "What are the greatest improvements you have seen since implementing an AP management solution?", the top benefits cited were reduction in paper invoice volume and quicker approval of invoices, indicating that convenience and lower processing costs are important.



Greatest improvements seen by organizations after implementation of AP management solution

Source: Paystream Advisors, Payables Insight Report, 2018



U.S. mid-market segment is large, growing and underserved

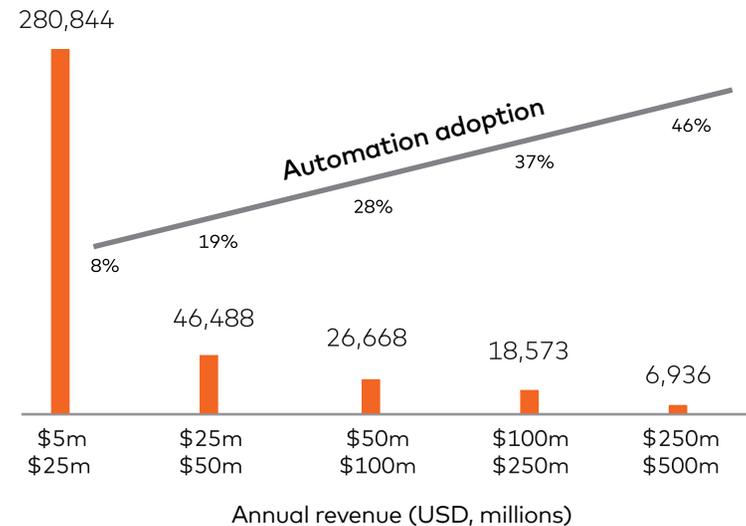
Among the potential benefits for financial institutions:

AP automation is in the early adoption stage for mid-sized businesses and this segment is ripe for growth for banks able to offer AP automation services to this market.

- 1. Deepening customer relationships:** Automated AP solutions present an opportunity to engage with mid-market clients as strategic partners.
- 2. Driving revenue:** Revenue will be driven by accelerating virtual card acceptance and utilization.
- 3. Answering demand:** Some middle-market firms are using fintech solutions, but would prefer to work with banks to meet their needs. Sixty-eight percent of middle-market companies say they have banking relationships that will support them in the event of disruptive technology or competition.¹

While the chart on the right shows AP adoption for companies with revenue up to \$500 million, the definition of mid-market actually ranges up to \$1 billion.

AP automation adoption rate means a long runway for growth
(Number of U.S. business entities and adoption)



Source: PayStream Advisors, Inc. research 2016 and AvidXchange estimates

The economic impact of middle-market companies must not be underestimated. There are roughly 200,000 companies in the U.S. with revenues from \$10 million to \$1 billion, most of which are closely held or family controlled. Such businesses produce roughly one-third of U.S. GDP.

Source: World Economic Forum, "Fueling the US economy's middle market growth engine," February 2018

1. Capital One, Disruption in the Middle Market, 2017



Accounts Payable automation can grow mid-market revenue

Mid-market businesses have struggled in the past to access AP automation solutions, as most of them have been targeted to enterprise players or have required mid-market companies to make significant technology and resource investments.

Nonetheless, interest has increased in this segment due to the pressing need for companies to streamline their workflows, reduce operational costs, and improve efficiency—prompting a step away from manual processes.

With technological advances, solutions have become accessible for middle-market companies. Financial institutions can increase revenue and fend off competition by offering more value to their middle-market companies.

Mastercard has developed a solution that makes automation accessible and easy-to-integrate for financial institutions and mid-market companies, called the B2B Hub. More information is available at: mastercard.com/b2bhub





For more information on how you can add value to the middle-market segment, contact your Mastercard account representative.



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