

ACCEPTANCE MATTERS, AND NOW WE KNOW BY HOW MUCH

BY ED DOWNS, VICE PRESIDENT & SENIOR BUSINESS LEADER, US COMMERCIAL PRODUCTS, & KAISER ASSOCIATES

Accepting credit cards at the point-of-sale for commercial transactions provides significant financial benefit over traditional payment collections methods

RESEARCH HIGHLIGHTS

- This study estimated card acceptance at the point-of-sale to be 37% less costly than using other payment collections methods – yielding savings of \$12 on a \$500 transaction
- Card acceptance provides a similar sized net benefit regardless of the funds transfer tool it replaces – e.g. check vs. ACH vs. wire
- The bulk of value from commercial card acceptance lies in its use as a pre-payment tool – providing revenue assurance against bad debts
- Small businesses derive the greatest savings from commercial card acceptance due to higher borrowing costs and fewer resources to prevent bad debt
- Early payment discounts are often less efficient for Suppliers than offering a card payment option

37% COST ADVANTAGE CARDS OFFER OVER OTHER COLLECTIONS METHODS FOR A TYPICAL MID-MARKET SUPPLIER, PER \$500 TRANSACTION.*

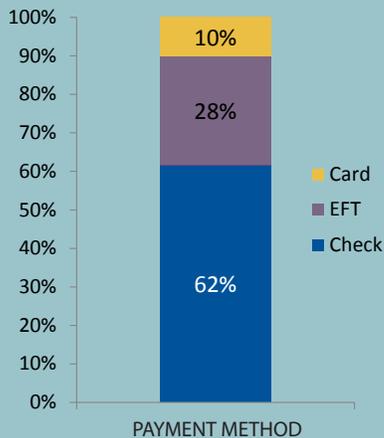
EXECUTIVE SUMMARY

Increasing Supplier card acceptance for business-to-business (B2B) purchasing has for many Issuers and Acquirers been perceived to be an uphill battle over the previous decade. With the prevalence of electronic funds transfers (EFT), and continued support for check payment, Suppliers' commitment to traditional payment methods continues to remain the last great inhibitor to card usage in the B2B space. MasterCard, partnering with Kaiser Associates, studied Supplier card acceptance, seeking to answer two key questions: **What drives card acceptance decision-making? And, what is the net financial impact associated with card acceptance?**

This white paper, and the answers to these questions, is based on a primary research-based study involving in-depth interviews with Accounts Receivable, Treasury, and Finance Managers at 50 US B2B Suppliers. The interviewee sample was diverse, representing firms of varying size – with revenues ranging from \$3MM to \$20B annually – and varying industries – with ten plus industries represented.

*All statistics, unless otherwise sourced, were derived from MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

COLLECTIONS METHOD BREAKDOWN, BY NUMBER OF TRANSACTIONS



Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

Adherence to traditional payment collections processes may be the biggest challenge that card acceptance faces. Although nearly 75% of interviewees accept card, the degree to which they do varies – with only 10% of total transactions paid for with card. Checks, meanwhile, account for 62% of total transactions, and EFT (ACH + wire) accounts for the remaining 28%. The current state of payment acceptance – and the relatively low percentage of transactions accounted for by card – inspired the study’s first key question: What drives card acceptance decision-making?

Suppliers have a limited view of card acceptance benefits, and even more limited visibility into the financial impacts of those benefits. Decisions to accept one payment method versus another are often made without understanding the “loaded” costs of each. These costs were identified and examined in detail in order to answer the study’s second key question: What is the net financial impact associated with card acceptance?

The study found card acceptance to carry a net financial benefit of **\$12.29** per \$500 transaction – a **37% cost advantage** over other payment collections methods – to a typical Mid-Market Supplier that accepts cards. This value is the net result of the benefits and costs of using card relative to other payment collections methods.

The largest component of the value of card acceptance is derived from an Order-to-Cash cycle that is **10X shorter** than that of other payment collections methods. Even when taking into account the merchant discount fee, this shortened Order-to-Cash cycle provides Suppliers with a significant cost advantage relative to other collections methods. The bulk of the value from commercial card acceptance lies in its use as a pre-payment tool – which can significantly reduce or eliminate bad debts for a Supplier. In addition, card acceptance also streamlines operations and increases working capital efficiency, adding to its overall net financial benefit.

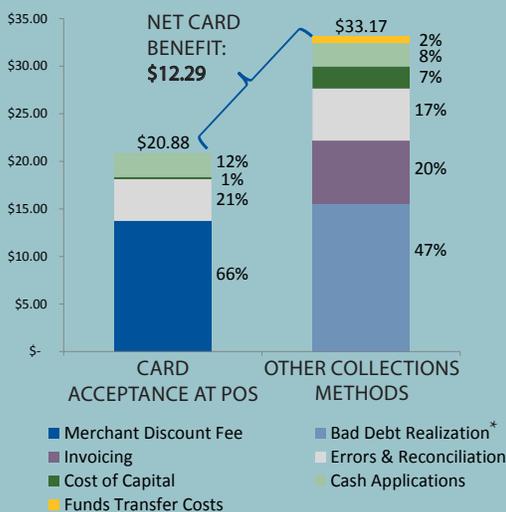
Given the net cost advantage associated with cards, greater Supplier acceptance is hindered by an apparent “education gap.” Suppliers admit as much themselves:

“To accept cards, I’d need to see what the benefits are. I doubt it’d cover the fee we have to pay” - AR Manager, Mid-Market Supplier.

Addressing this education gap can yield results for the Issuing and Acquiring community. This study found Suppliers to be 25% more willing to accept card when presented with a business case that details the net positive impact of doing so. In addition, those Suppliers offering early-pay trade discounts may be particularly receptive to a business case outlining card acceptance benefits, as the benefit from card acceptance is even greater for this group.

This white paper seeks to dispel some of the common misconceptions Suppliers have regarding the benefits and costs of card acceptance. By focusing on and addressing this education gap directly, Issuers and Acquirers should be able to make great strides in scaling the “acceptance hill” and accelerating Supplier card acceptance in the B2B space.

SUPPLIER COST BENEFIT SUMMARY FOR \$500 TRANSACTION



Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

*Allowance for Bad Debt taken as proportion of Accounts Receivables for 1,800 US Companies; intended to approximate the bad debt realized from extending trade credit

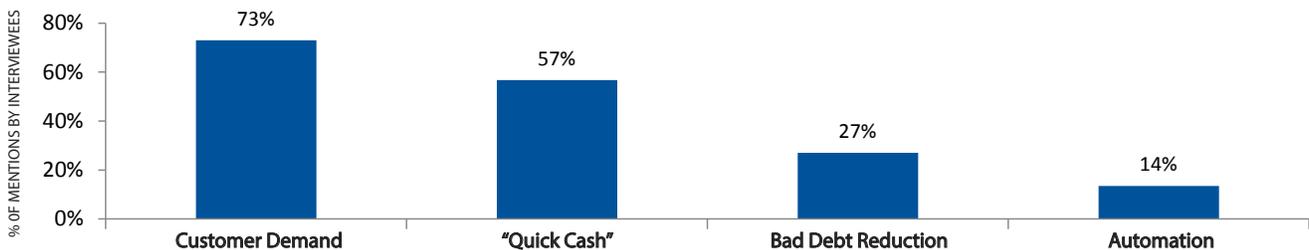
Suppliers' Views Of Card Benefits Are Limited In Scope And Depth

Suppliers currently have an incomplete view of card acceptance benefits, and thus fail to properly quantify these benefits. While many Suppliers that accept cards do recognize some of the benefits relative to other payment collections methods, no single Supplier recognized all the benefits associated with card acceptance.

"TO ACCEPT CARDS, I'D NEED TO SEE WHAT THE BENEFITS ARE. I DOUBT IT'D COVER THE FEE WE HAVE TO PAY."

-- AR MANAGER, MID-MARKET SUPPLIER, MANUFACTURING

REASONS FOR CARD ACCEPTANCE



Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

Primary benefits of card identified by Suppliers:

- **Customer Demand (Mentioned by 73% of Accepting Suppliers):** Providing Buyers with the option of paying quickly and easily was the most prevalent reason to accept cards. While revenue-side benefits weren't explored in this study, Suppliers are clearly acting on the belief that providing a more convenient and desirable payment option to buyers induces incremental buying.
- **Quick Cash (Mentioned by 57% of Accepting Suppliers):** Accepting card at the point of sale eliminates two timely and costly processes in the Order-to-Cash cycle – invoice production and buyer credit extension. Streamlining this cycle by eliminating these processes provides significant Supplier-side benefits.
- **Bad Debt Reduction (Mentioned by 27% of Accepting Suppliers):** In addition to the benefits associated with shortening the Order-to-Cash cycle, charging Buyers at the point of sale via card reduces the amount of trade credit extended to the Supplier's customer base, and consequently reduces the incidence of non-payment. Though 27% of interviewees cited this as a driver of card acceptance – none had quantified the effect of card on bad debt expense reduction.
- **Automation (Mentioned by 14% of Accepting Suppliers):** Reducing paper and labor at Supplier organizations was noted as a sizable benefit resulting from card acceptance.

"AS LONG AS THE CARD GOES THROUGH WE'RE GUARANTEED PAYMENT, AND WE LIKE THIS. WHEREAS A CHECK CAN STILL BOUNCE, WE STILL GET PAID EVEN IF THE BUYER DOESN'T PAY THEIR CARD STATEMENT."

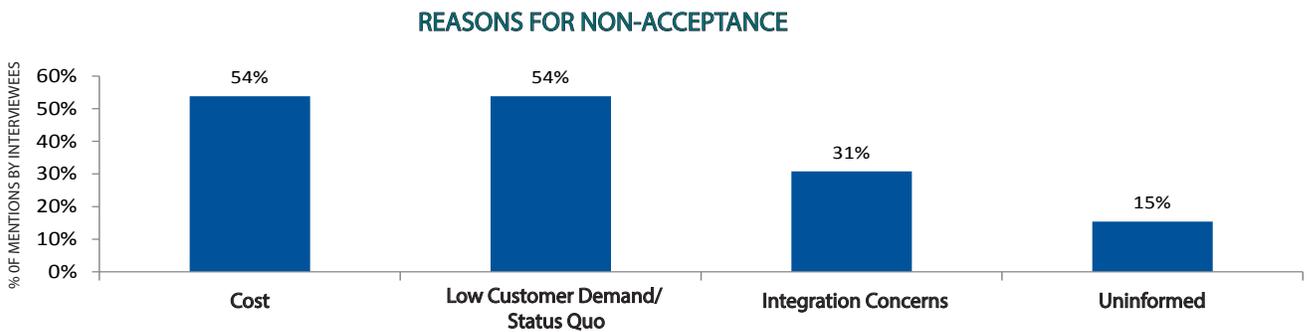
-- AR MANAGER, SMALL-MARKET SUPPLIER, PROFESSIONAL SERVICES

The data shows that even card-accepting Suppliers tend to be aware of only some, but not all, of the primary benefits of acceptance, and without quantification of their financial impacts.

Therefore, a key opportunity to move the needle on acceptance is to conduct effective campaigns to educate Suppliers about the full range of benefits of accepting card, and about the net financial impacts of doing so.

Suppliers' Reasons For Non-Acceptance Can All Be Countered Through Education

In the absence of effective education, Suppliers provide a litany of reasons for non-acceptance, with "cost" and "lack of demand" at the top of the list:



Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

Primary Reasons to Not Accept Cards

- Cost (Mentioned by 54% of Non-Accepting Suppliers):** Not surprisingly, the direct costs associated with accepting cards – most notably the merchant discount fee – are cited as one of the top reasons for non-acceptance. As the largest driver away from cards, it is critically important for the Acquiring community to educate Suppliers appropriately on the direct and less-direct financial benefits derived from card acceptance, and on how these offset the merchant discount fee.
- Low Customer Demand (Mentioned by 54% of Non-Accepting Suppliers):** Non-acceptance results from lack of information – not just with regard to fully-loaded benefits, but also with regard to Buyer demand for a card payment option. Perhaps it's surprising to find that, whereas "customer demand" is the number one driver of card acceptance, "low customer demand" is one of the top reasons for non-acceptance. This likely reflects both variability in Buyer demand for card, and an incomplete understanding of Buyer needs from the non-accepting Supplier group.
- Integration and Uninformed (Mentioned by 31% and 15% of Suppliers, respectively):** The remaining reasons for non-acceptance are both derived from a lack of Supplier knowledge regarding system implementation and card benefits. There is, therefore, an opportunity to use Acquirer- and Network-provided educational materials to address these barriers to adoption. One tactic for doing so is to provide testimonials from previous successful ERP-card integrations to address Supplier concerns.

"I DON'T KNOW WHAT THE DEMAND IS [TO PAY WITH CARDS]. I'M MORE FOCUSED ON THE FEE WE'D HAVE TO PAY PER TRANSACTION."

-- AR MANAGER, SMALL-MARKET SUPPLIER, LOGISTICS

The reasons offered for non-acceptance can all be addressed by increasing educational efforts towards Suppliers.

Once again, considerable upside exists in educating Suppliers on the benefits of accepting card, addressing their concerns regarding integration, and quantifying the benefits of card over other payment collections methods.

Card Acceptance Provides Considerable Net Value Gain Over Other Payment Collections Methods

In determining the net financial impact associated with card acceptance, this study examined card acceptance in relation to other payment collections methods. For the purposes of this white paper, "other payment collections methods" is defined as an order-to-cash cycle that includes two practices – (i) issuing an invoice following receipt of a PO, and (ii) extending trade credit to the buyer – that are absent when accepting card at the point-of-sale. Collecting receivables using "other payment collections methods" is currently the *de facto* practice for US Suppliers – in this study, these methods were used for 90% of the transactions handled by those interviewed.

Data from this study shows that card acceptance yields several advantages over other payment collections methods using non-card funds transfer methods (e.g. check, ACH, and wire) – with the financial benefit of cards more than offsetting the direct cost of cards.

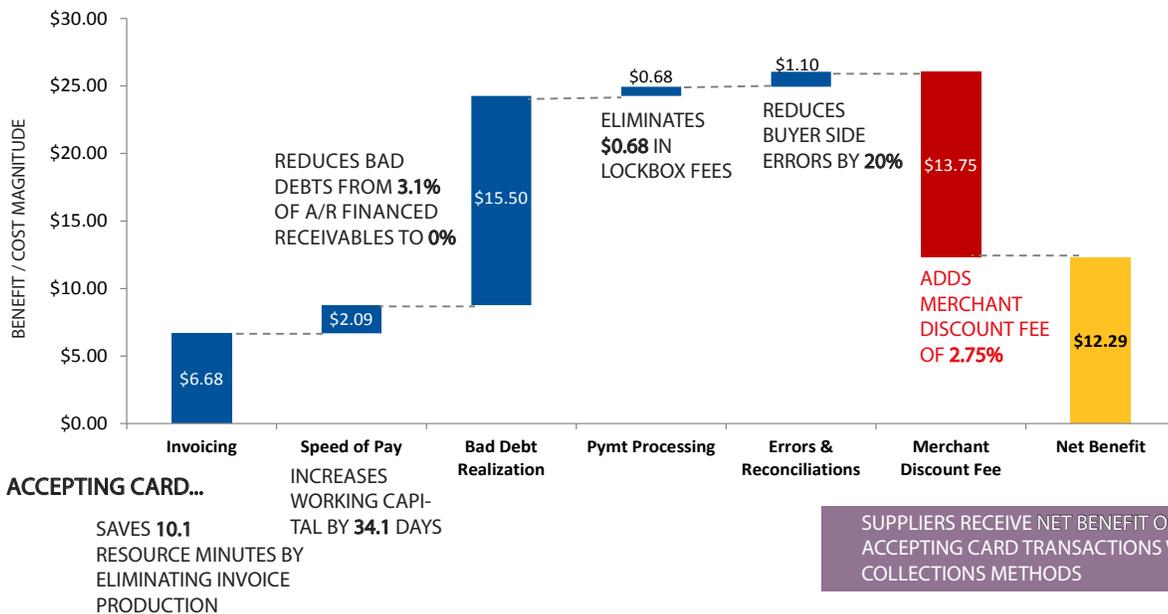
Furthermore, this is the case even without quantifying the revenue-side gains associated with meeting Buyer demand for card acceptance (which is the single most important driver of Supplier card acceptance).

ORDER-TO-CASH CYCLE COMPONENTS

COMPONENTS	CARD AT POS	OTHER COLLECTIONS METHODS
Trade Credit Extension		✓
PO Receipt	✓	✓
Invoice Production & Delivery		✓
Payment Receipt	✓	✓
Payment Processing & Bank Receipt of Funds	✓	✓

Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

CARD ACCEPTANCE BENEFITS AND COSTS RELATIVE TO OTHER COLLECTIONS METHODS FOR \$500 TRANSACTION (MID-MARKET SUPPLIER)



Sources: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012; "The Blue Book of Bank Prices, 2012-2013, Executive Summary," Phoneix-Hecht

"[ACCEPTING] CARD IS ALL ABOUT SPEED... I CAN SEE IMMEDIATELY WHEN A PAYMENT GOES THROUGH. ON THE OTHER HAND, IF A CHECK BOUNCES, I'M NOT GOING TO FIND OUT FROM TREASURY FOR AT LEAST 14 DAYS."

-- SENIOR AR MANAGER, LARGE-MARKET SUPPLIER, TECHNOLOGY

"IT'S EASIER FOR THE BUYER, AND ON TOP OF THAT, WE GET PAID A WHOLE LOT SOONER. IT'S A WIN-WIN."

-- AR MANAGER, MID-MARKET SUPPLIER, WHOLESALE

For a typical \$500 transaction, Suppliers can expect to receive a net **\$12.29 benefit** by using card – enough for a potential **37% cost advantage** over other payment collections methods. For those Suppliers who believe the merchant discount fee outweighs potential cost savings, a pleasant surprise may be in store!

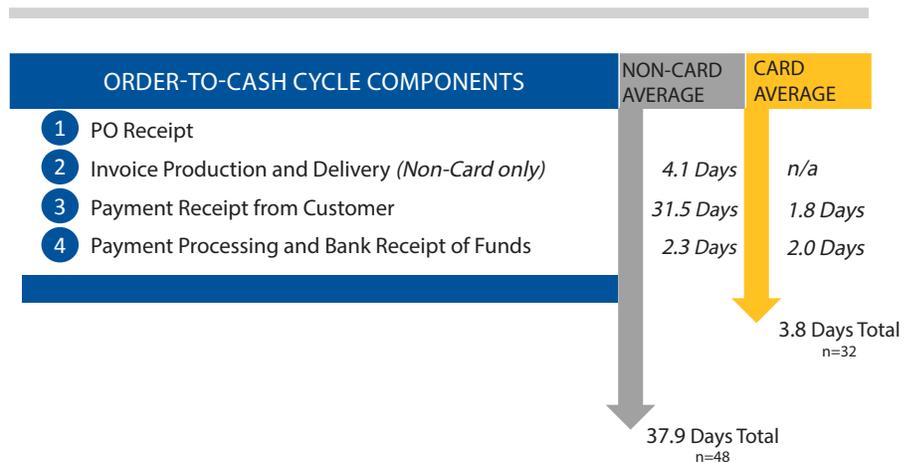
To put this in a fuller context, for a company earning \$100MM in revenue comprised of equal-sized \$500 transactions, transitioning 10% of transactions previously made with other payment methods to card would have potential savings of \$246,000. Staying with the same example, if all revenue were comprised of equal-sized \$250 transactions, transitioning 10% of transactions previously made with other payment methods to card could net as much as \$415,000. As such, the net value gained from accepting card varies by transaction size – with the largest savings over other payment collections methods realized with smaller transactions.

The net benefit for larger transactions tapers off at roughly 0.9% of the transaction size once the transaction amount reaches above \$5,000. For example, a Mid-Market Supplier would potentially receive a \$66 savings per \$7,500 card transaction versus a similarly-sized check transaction using other payment collections methods, amounting to an estimated net benefit of 88 basis points on the transaction.

So, where do the savings come from? What do so many Suppliers overlook in determining the net value of card acceptance?

Cards Enable An Order-To-Cash Cycle That Is 10X Shorter Than That Of Checks, ACH, And Wire

While many of the Suppliers spoken to cite "quick cash" as an advantage, few have investigated the magnitude to which card acceptance affects the Order-to-Cash cycle. In this detailed analysis of 50 US Suppliers, cards facilitated an Order-to-Cash cycle that is 10X shorter than that of other payment collections methods.



Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

Across Order-to-Cash cycle components – PO Receipt, Invoice Production & Delivery, Payment Receipt from Customer, Payment Processing & Bank Receipt of Funds – card cycle time is 3.8 days vs. 37.9 days for other payment collections methods. This cycle-time savings is driven largely by the act of accepting card at the point of sale – which subsequently eliminates or reduces:

- The need to produce and issue an invoice
- The need to extend trade credit to the Buyer
- Late payment or non-payment risk

It is from these reductions and eliminations that the financial benefits from a quicker Order-to-Cash cycle are realized. Firstly, one benefit realized from a quicker Order-to-Cash cycle is an improvement in working capital, delivering value in one of two ways:

1. **Borrowing Costs:** improving working capital reduces an organization's need to utilize credit – helping to decrease interest expense for the organization
2. **Opportunity Cost of Capital:** gaining cash sooner from booked revenues allows those dollars to be more quickly reinvested into core businesses – helping increase ROI on revenues booked

While these effects account for a sizable portion of card benefits, they are not the largest benefit that card acceptance yields.

The Bulk Of The Value From Card Lies In Its Utility As Revenue Assurance For The Supplier

The bulk of value from card acceptance lies in its use as a pre-payment tool – providing revenue assurance against bad debts. Each time an organization accepts payment at the point of sale, without extending trade credit, it dramatically reduces its exposure to non-payment. That risk of non-payment is reduced even further when the payment method used is card, due to its instant authorization capabilities. This is especially valid when comparing card versus check. Check necessitates a time lag to confirm sufficient Buyer funds, which carries the risk of the Buyer cancelling payment during the intervening period, or having insufficient funds for the payment.

Accepting card at the point of sale results in a significant decrease in time to receive payment, with a corresponding decrease in risk, with Suppliers receiving Buyer payment in 1.8 days on average, 29.7 days faster than when using other payment collections methods. As such, several of the Suppliers interviewed used card to process transactions at the point of sale for the purpose of more effectively ensuring that payment will eventually be received. This rationale for accepting card may be particularly convincing to those Suppliers currently offering early payment discounts but who have not yet adopted card as a collection method.

“IT HELPS TO GET PAID QUICKLY. WE CAN USE THAT CASH FOR OTHER PURPOSES, PLUS - AND THIS IS KEY - WE DECREASE THE ODDS THAT WE’RE NOT PAID.”

**-- CREDIT & COLLECTIONS
MANAGER, MID-MARKET SUPPLIER,
ENERGY**

“THE WHOLE PROCESS IS SO MUCH FASTER WITH CARD, WE’RE ABLE TO PROCESS ORDERS IMMEDIATELY WITHOUT FEAR OF TAKING ON BAD DEBT. THIS, AS YOU CAN IMAGINE, IS A PRETTY SIGNIFICANT BENEFIT.”

**-- CREDIT & COLLECTIONS
MANAGER, MID-MARKET SUPPLIER,
LOGISTICS**

COST OF COLLECTIONS METHODS (FOLLOWING FULFILLMENT OF GOODS AND SERVICES)

FULLY LOADED COSTS PER \$500 TRANSACTION	
WIRE	\$43.22
CHECK	\$33.17
ACH	\$32.80
CARD	\$20.88

Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012;

"The Blue Book of Bank Prices, 2012-2013, Executive Summary," Phoneix-Hecht

Net Benefit Is Roughly The Same Regardless Of Whether Check Or EFT Gets Displaced

Given that the bulk of the value from using cards is derived from its enabling point of sale transactions, and thus shortening the payment cycle, the savings achieved remain fairly constant regardless of whether card replaces check, ACH, or wire, a fact Suppliers will likely be surprised to learn.

The relative cost difference between accepting check vs. ACH is small – on average the difference is only 37 cents per transaction (in favor of ACH) – and results from the difference in bank fees associated with the two methods. Wire processing fees are even higher than those of check, and result in a \$10.05 relative cost as compared to check.

Hence, when using check, ACH, or wire in the traditional form, the Supplier is still issuing trade credit and is still delaying payment receipt – ultimately leaving the organization more exposed to non-payment risk and working capital costs.

Card Acceptance Savings Vary By Supplier Size And Sophistication, Yet Are Greatest For Smaller Businesses

Accepting card at the point of sale creates net value for all Supplier sizes and sophistications, however the benefits are greatest for smaller businesses.

Three factors lead to a greater net card benefit for smaller businesses:

- 1. Smaller businesses tend to accept smaller transactions than do Large Market companies:** Relative benefits of card acceptance increase as transaction size decreases. This is attributed to the fixed cost savings associated with the more streamlined card acceptance processes – an example of which is the reduced labor cost from not producing an invoice. As transaction size increases, this fixed cost savings becomes increasingly smaller as a proportion of transaction size.
- 2. Smaller businesses tend to incur higher borrowing costs than do Large Market companies:** Smaller businesses are charged higher interest rates for working capital, and thus, the time value of money is much greater for smaller businesses than for larger companies. Consequently, there is greater relative benefit realized by smaller businesses from reducing the Order-to-Cash cycle by 10X.
- 3. Smaller businesses tend to have fewer resources to prevent bad debt:** Smaller businesses tend to have fewer resources to investigate customer credit prior to sale, and to collect past-due payments post sale. Thus, smaller businesses stand to gain more from the bad-debt reduction effects of card than do larger companies.

RELATIVE BENEFIT OF CARD VS. OTHER COLLECTIONS METHODS FOR A \$500 TRANSACTION

SUPPLIER SIZE BY ANNUAL REVENUES	NET BENEFIT FROM CARD
SMALL (<\$20MM)	\$15.05
MID (\$20MM TO \$500MM)	\$12.29
LARGE (\$500MM+)	\$9.04

Source: MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

Suppliers Are Willing to Adopt Card If Given A Convincing Business Case To Do So

Given the clear Supplier-side benefits and net value associated with card acceptance, why do 26% of the Suppliers interviewed still not accept cards? The answer is a lack of awareness of the net financial impacts of accepting card.

To gauge the impact that awareness of card benefits would have on non-acceptors, Suppliers were first asked to self-report on their current willingness to initiate card acceptance in the next three years. As a follow up, Suppliers were then asked how their willingness would change if presented with a net-positive business case for card acceptance.

The results are revealing – Suppliers indicated a 25% increase in willingness to adopt if presented a business case that demonstrates net positive value for their organization. Given this linkage, education campaigns, built around the net financial benefits of card, represent an important “low hanging fruit” opportunity to accelerate Supplier adoption.

Early-pay discounts are less efficient than offering Buyers a card payment option

A Supplier segment that is particularly well-suited for card acceptance is that comprised of Suppliers who offer trade discounts to incentivize early payment.

Of those interviewed, this early-pay discount ranged from 1-2%, with a required time window to pay ranging from 5-15 days. By accepting card in place of offering early-pay discounts, Suppliers can achieve the following benefits:

1. Quicken the Order-to-Cash cycle by 5-15 days
2. Maintain existing Buyer discounts by replacing Supplier-provided trade discount with Issuer-provided rebate
3. Streamline both Buyer-side procurement processes and Supplier-side collection processes
4. Reduce processing and payment errors – and thus costly manual reconciliation efforts – for both Buyers and Suppliers

As the Supplier-side benefits associated with card acceptance become better known, we fully expect the practice of offering early-pay trade discounts to phase out in favor of card acceptance at the point of sale.

For Acquirers, a “quick win” opportunity to increase card acceptance is therefore to target Suppliers that offer trade discounts but have yet to accept cards.

“CARD ACCEPTANCE MEANS EARLIER USE OF CASH - WE HAVE IT TO DO WHAT WE WANT WITH IT. THAT BEING SAID, WE HAVE YET TO QUANTIFY WHAT THIS BENEFIT MEANS TO US.”

-- AR MANAGER, MID-MARKET SUPPLIER, PROFESSIONAL SERVICES

“WE OFFER EARLY PAY DISCOUNTS TO QUICKEN THE PAYMENT CYCLE. THE EARLIER WE’RE PAID, THE MORE WE’RE ABLE TO DO WITH THAT MONEY AS AN ORGANIZATION”

-- SENIOR AR MANAGER, MID-MARKET SUPPLIER, MANUFACTURING

Conclusion

The research conducted in this study reveals that the benefits of card acceptance considerably outweigh the costs, that there is a significant “education gap” in Suppliers’ understanding of these benefits, and that Suppliers are willing to adopt cards if presented with a clear and convincing business case to do so.

Therefore, a key opportunity to move the needle on acceptance lies in demonstrating to Suppliers exactly how, and to what extent, card acceptance lowers costs, and that, regardless of business size or industry, acceptance works in both the Supplier’s and the Buyer’s favor.

By focusing on and addressing this education opportunity, Issuers and Acquirers should be able to make considerable strides in scaling the “acceptance hill” and accelerating Supplier card acceptance – and thereby overcome a hurdle that is considered by many to be the last great inhibitor to card usage in the B2B space.

MasterCard Worldwide

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SOURCES

MasterCard and Kaiser Associates, Commercial Card Acceptance Cost-Benefit Study, November 2012

"The Blue Book of Bank Prices, 2012-2013, Executive Summary," Phoneix-Hecht

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Kaiser Associates

Kaiser Associates is a strategy consulting firm that works extensively on issues of growth and innovation with payments leaders globally. Founded in 1981, the firm specializes in using custom primary research to provide fact-based decision-making support (on global best practices, markets, customers, competitors, suppliers, partners, etc.) to clients. Kaiser's payments work covers the full suite of traditional and emerging products including consumer credit, debit, commercial, prepaid, acquiring, processing, e-commerce, mobile, and P2P payments. Based in Washington, DC, and with offices worldwide, Kaiser provides payments strategy support to clients in over 35 country markets.

For more information about this research, please contact us at <http://www.mastercard.us/commercial/webform.html>

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