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Merchants Need Modern Payment Systems to Meet Customer Demand

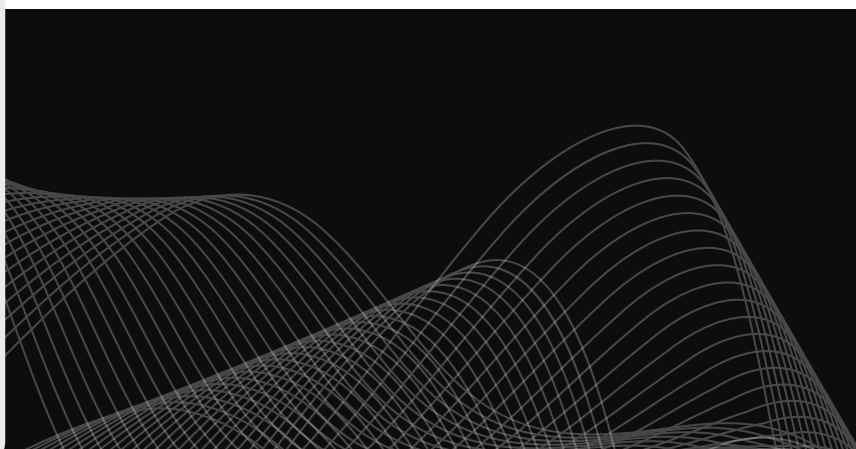
B2B and Digital Payments Tracker® Series

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B2B and Digital Payments Tracker®

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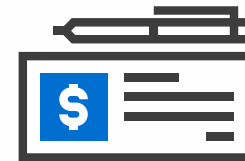
Need to Know

Merchants' Payment Digitization Efforts Are Accelerating

Having started as a gradual, decades-long transition, merchants' digitization efforts have intensified in recent years. Traditional payment methods and legacy systems are increasingly giving way to more modern alternatives, and hardly any aspect of business has remained untouched by this rapid acceleration of the business world's digital evolution.

Checks, for example, used to dominate business-to-business (B2B) payments. Now, however, as few as 25% of B2B payments are made by check, according to a PYMNTS [survey](#). Merchants' embrace of digital payment options is so pronounced that 66% of financial institutions (FIs) say the ability to offer clients B2B digital payment options is at least very important, according to a PYMNTS [report](#).

Digital payment options are transforming how businesses pay one another.



25%

Share of B2B payments [made](#) by check



66%

Share of FIs that [say](#) offering clients B2B digital payment options is at least very important

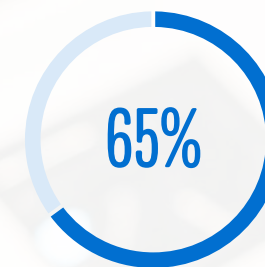
Need to Know

Companies are endeavoring to expand payment options for consumers.

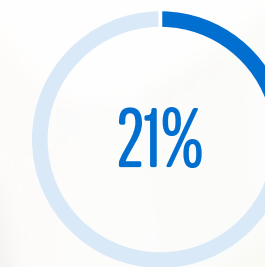
Merchants are also expanding — or are interested in expanding — their consumer-facing digital payment capabilities. According to a PYMNTS [report](#), 65% of non-grocery retailers are adding payment methods, while 55% and 56% of grocery stores and convenience stores, respectively, are doing so as well. To cite just one example, the report found that 21% of United States merchants plan to support scan-and-go capabilities via their mobile apps.

According to another PYMNTS [report](#), real-time payments are even more popular, with 52% of retailers either currently accepting or planning to accept real-time payments in the next three years. A similar share of stores are also [planning](#) to innovate around their loyalty programs, refund processes and in-house data analytics.

Merchants are pursuing many consumer-facing payment innovations, according to a PYMNTS [report](#).



Share of non-grocery retailers planning on adding payment capabilities



Share of retailers, including grocers, planning to support scan-and-go payment options

Need to Know

AR/AP modernization is becoming essential for supporting digital payments.

With businesses expanding their digital payment options for consumers — and increasingly for companies with which they do business, too — there is a growing need for merchants to modernize their accounts receivable (AR) and accounts payable (AP) systems. Legacy solutions that rely on manual entry and cumbersome procedures [are](#) ill-equipped for a digital era.

Indeed, many merchants are investing in new and improved AR and AP systems. According to a PYMNTS [report](#), 26% of retailers are currently investing in new AP systems and 55% plan to invest in them in the future. Similarly, for AR, 35% of retailers are currently investing in these systems and 42% plan to invest in them in the future.

With digital payments increasingly becoming the norm, retailers are investing in better AP and AR systems.

81%

Share of retailers currently investing or planning to [invest](#) in new AP systems`

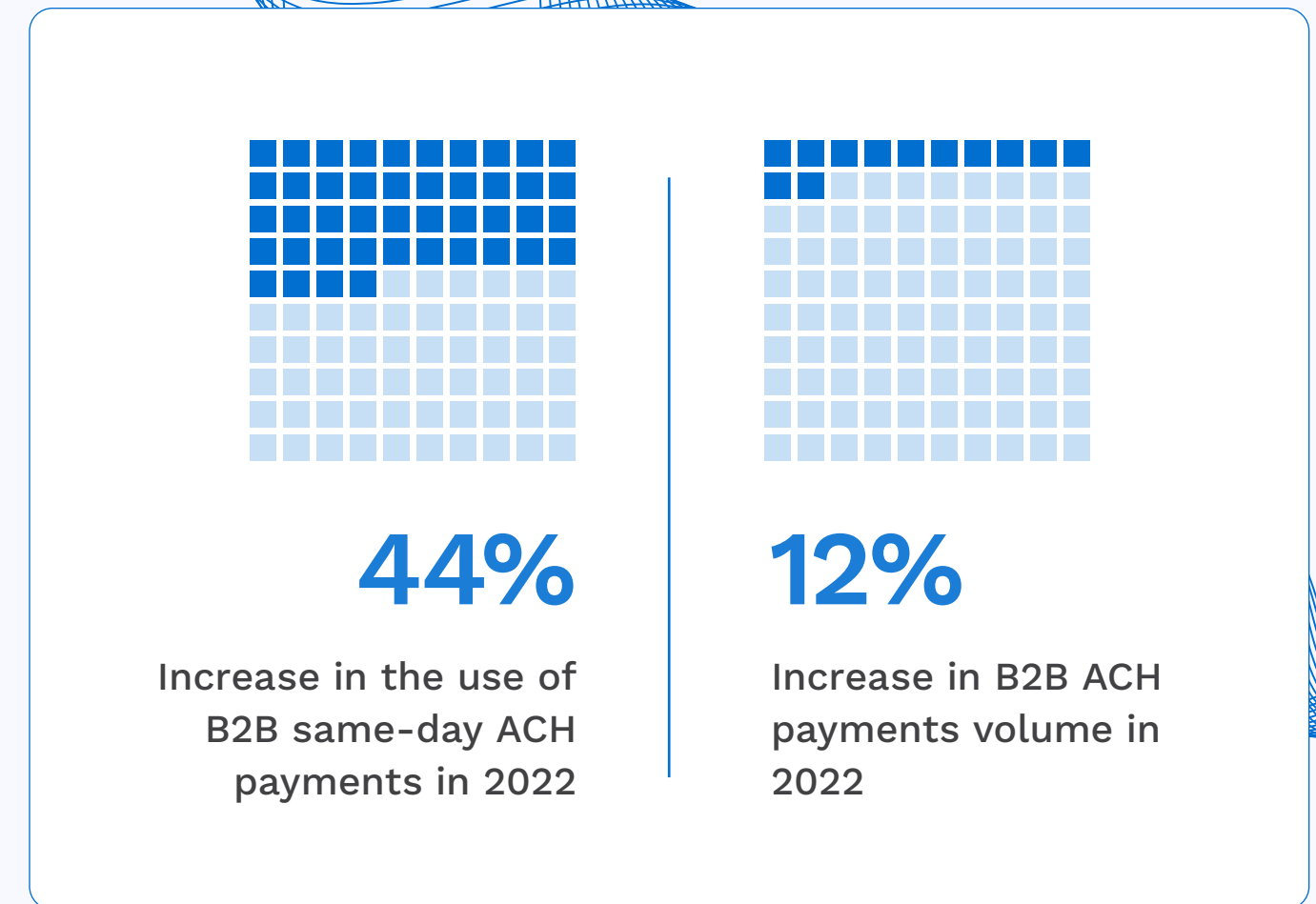
77%

Share of retailers currently investing or planning to [invest](#) in new AR systems

News and Trends

Struggling With Legacy Solutions, Merchants Are Adopting Modern Payment Methods

The automated clearing house (ACH) network in the U.S. processed over 30 billion payments worth nearly \$77 trillion in 2022, representing a 3% increase in volume from the year before, according to a [press release](#) from Nacha, the organization behind ACH. Same-day ACH — Nacha's faster payments option — and B2B transactions helped drive this growth, with same-day ACH transaction volumes increasing



by nearly 16% and B2B ACH transactions up almost 12%. The use of the same-day option for B2B transactions specifically also skyrocketed, growing by 44% from the year prior. These metrics indicate how digital payments adoption is accelerating and companies are eager for modern payment methods.

News and Trends

Study finds merchants struggling with legacy B2B cross-border payments

A significant portion of merchants are dissatisfied with their B2B cross-border payment solutions and are interested in improvements, according to a recent [study](#). Problems include excessive transaction fees — 76% of businesses are burdened by fees of at least \$10 — and slow payment speeds, with 39% of businesses experiencing delays of five days or more.

In light of these difficulties, there is widespread interest in scrapping legacy cross-border payment solutions for modern alternatives — and many companies have already started to transition. The study found that 61% of businesses have made payment system digitization a top priority, while one-third have already automated their payment systems.

Companies are widely dissatisfied by their payment failure rates

A recent LexisNexis [report](#) found that 70% of corporations and FIs are unsatisfied with their rate of payment failures. For 64% of respondents, these failed payments have negatively impacted staff workloads. The associated costs of failed payments are also a point of frustration: The average per-payment fee of these unsuccessful payments was \$12.10.

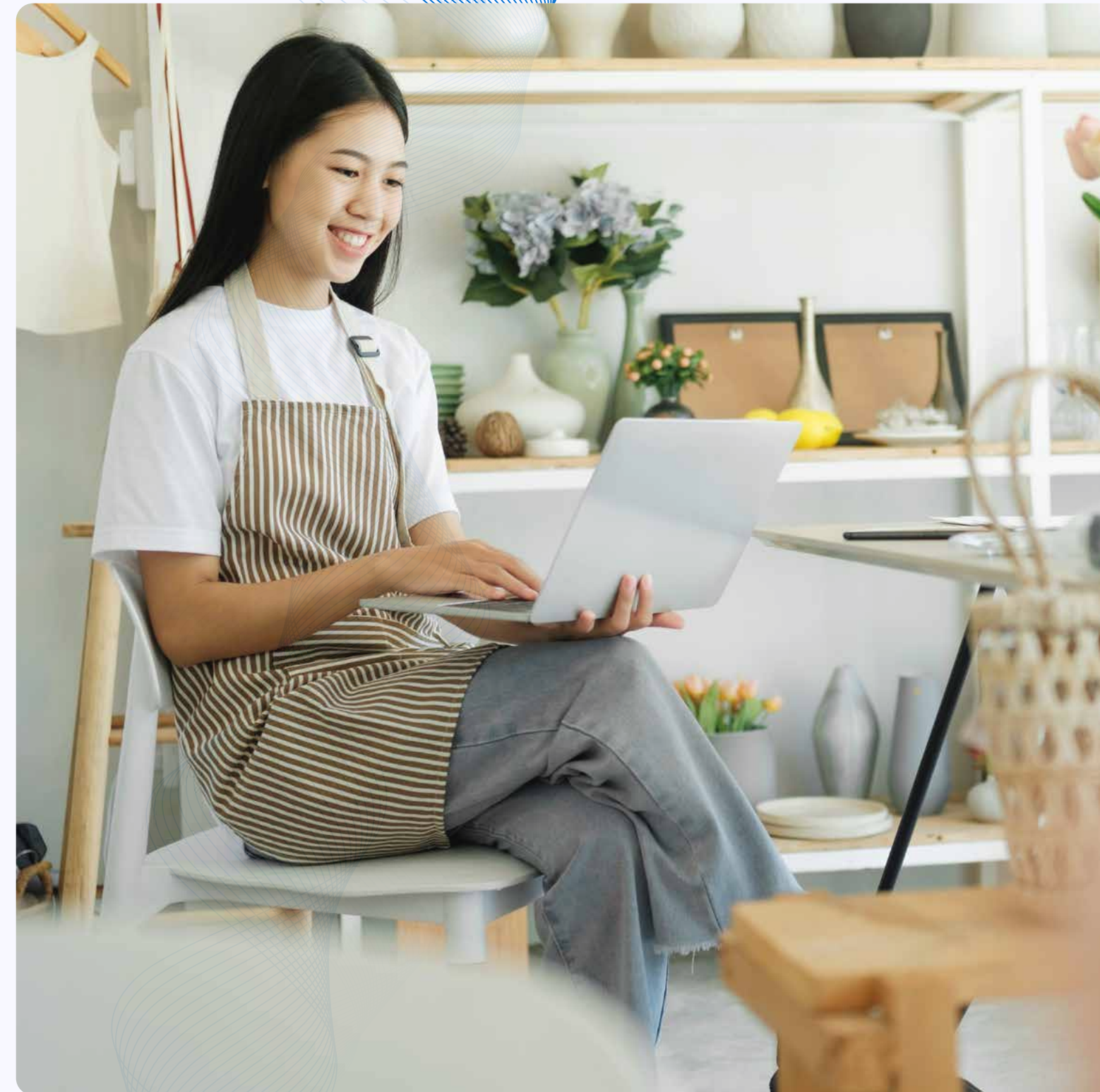
The report found that problems with the beneficiary's name or address information were the most common source of failed payments. Interestingly, 72% of respondents said they were still confirming this information manually — a fact that might help explain why it remains a source of problems.

PYMNTS Intelligence

Benefits Abound for Merchants Undertaking Payments Modernization

As physical locations closed or access to them became otherwise restricted during the pandemic, companies had to pivot to digital channels to survive. Even stores that remained open had to evolve. With health concerns swirling, for example, the [use](#) of contactless payment options took off. As a result, the pace of merchants' digital transformations increased from a saunter to a sprint during the pandemic.

Although merchants were forced to accelerate their modernization and digitization efforts due to the pandemic, this evolution will continue into the future. Not only will companies need to adopt digital solutions to keep up with customer demand; the implementation of such solutions can significantly benefit merchants in a variety of ways.



PYMNTS Intelligence

Digital payments can help address legacy solutions' shortcomings

Payments digitization can help overcome the pain points inherent in legacy payment-based B2B transactions. In a PYMNTS [survey](#), SMB payors identified an average of five issues they usually encounter when making B2B payments, revealing just how frustrating the B2B payment process can be.

Among the top concerns were the need for manual review and time-consuming procedures — issues that modern payment systems can alleviate, especially since the use of technology can [promote](#) efficiency. This explains why 92% of FIs [are](#) innovating or planning to innovate new digital solutions to reduce B2B payment frictions.

Companies view payments automation as an important and beneficial step.



92%

Share of FIs that [are](#) innovating or planning to innovate new digital solutions to reduce B2B payment frictions



96%

Share of CFOs [saying](#) that improvements to AP/AR management were very or extremely important to creating a healthy balance sheet

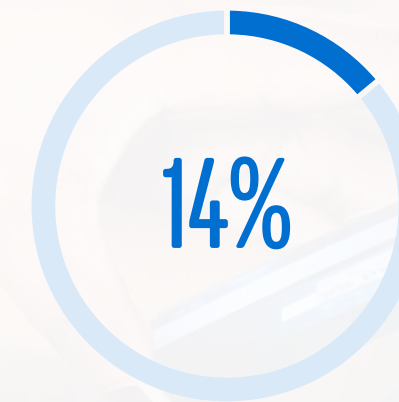
PYMNTS [found](#) that 91% of CFOs believe digitization improved efficiency and 84% said digitized systems improved the management of working capital. Notably, the survey also revealed that these benefits were the most sought-after objectives of companies that set out on digitization efforts. In addition, an even greater share of CFOs — 96% — said improvements to AP and AR management were very or extremely important to creating a healthy balance sheet.

PYMNTS Intelligence

Merchants are modernizing to keep up with consumer demand

On the consumer-demand front, merchants are — and will keep — expanding their digital capabilities to accommodate changes in consumer behavior. In 2022, 89% of Americans used some form of digital payments method, according to a McKinsey [report](#). Digital wallets are particularly popular, especially for online shopping: PayPal alone accounted for nearly 14% of consumers' online shopping spend, according to a PYMNTS [report](#).

Merchants are aware of consumers' spiking interest in digital payments and fear that a failure to meet this demand will harm business. Indeed, according to PYMNTS [research](#), more than 75% of merchants believe that consumers would be at least very likely to switch merchants because retailers are not providing enough modern capabilities, including alternative payment methods in-store.



PayPal's [share](#) of consumers' online spend



Share of merchants that [believe](#) consumers would likely switch retailers over a lack of modern capabilities

Chart of the Month

All-in-One Payment Platforms Provide Many Benefits

If the opinion of payment platform executives is any guide, merchants that adopt all-in-one payment solutions have a lot to gain. According to a PYMNTS [survey](#) of these executives, the top benefit of such comprehensive payment products for SMBs is simplified payables tracking, with 83% of executives citing this impact. The majority of executives also highlight the ability to make instant payments, improved payment speed and choice, and better working capital as other benefits.

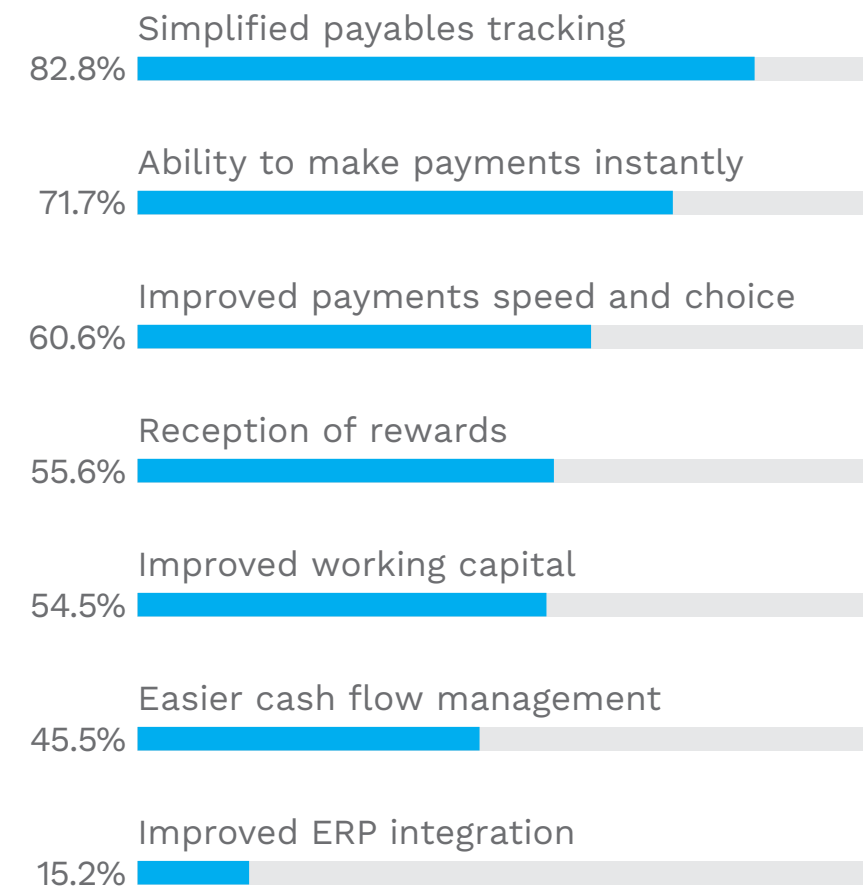
Source: PYMNTS

The AP/AR Quick-Start Guide: How All-in-One Payment Platforms Can Transform B2B Transactions, August 2022

N = 99: Complete responses, fielded Nov. 22, 2021 – Dec. 20, 2021

Benefits of Making Payments Using an All-in-One Solution

Share of payment platform executives citing select benefits their SMB customers would receive by using an all-in-one solution to make payments



Insider POV

An Industry Insider on Why Once B2B Goes Digital, It Won't Go Back



LUKE TRAYFOOT
Chief revenue officer

mangopay

“I think the overarching theme is platforms are looking to bring in financial operating systems that make it so it’s completely seamless, where the buyer doesn’t need to go to a different site just to make a payment. ... That kind of embeddedness is a big trend we are seeing.”

With the use of digital payment platforms catching on for B2B payments, an industry insider explains why companies are interested in digitizing and why this will not reverse.

Business trends can be a fickle thing: Some endure and fundamentally change the landscape, while others peter out and sometimes even reverse. The trend of businesses’ payment digitization falls squarely into the first category, according to Luke Trayfoot, chief revenue officer of [Mangopay](#). In an [interview](#) with PYMNTS, he explained that once businesses go digital, they do not go back.

To understand why this is the case, it helps to understand what is driving companies to digitize in the first place.

“People are looking for ways to optimize their businesses. They’re trying to reduce costs and increase growth at the same time — and technology helps enhance that,” said Trayfoot.

He added that what it really comes down to is how businesses want to transact. In contrast to checks and other traditional methods, digital payment platforms are fast, flexible and efficient. These platforms can create a seamless, embedded experience in which buyers do not need to go to another website to make a payment. Since these characteristics are exactly what companies want, digital platforms are becoming more popular.

Insider POV

For example, there is a big demand right now for digital wallets, Trayfoot noted.

“[Businesses] want the ability to hold money in, for lack of a better phrase, an escrow kind of capability. They’re trying to build that relationship, and so the B2B platform needs to be the trusted source to hold those funds.”

Depending on the use case, however, not every platform will do. A lot of platforms, Trayfoot said, do not comply with regulations and payment licenses, especially as they relate to know your customer (KYC) and anti-money laundering (AML) requirements.

These types of rules and regulations, Trayfoot noted, are only becoming more common and more important. This is why Mangopay built its solution to help businesses easily handle them.

Emerging technology will keep driving B2B’s digital evolution. Trayfoot explained that recent technological advances, such as generative artificial intelligence (AI), will absolutely add value to the B2B space. This is why Mangopay — instead of sticking with the status quo — is actively exploring ways to harness new technology to help its customers.

The firm recently [acquired](#) Nethone, a fraud detection and prevention solution, to better safeguard its payments platform — and similar moves are on the way.

“A few more [acquisitions are] in the pipeline coming out soon, which tie into that AI concept of embedding a level of automation into the business and leveraging no-code tools,” Trayfoot added. “A big thing for us is being able to empower our customers, and layering AI on top of the data is one key way to do this for payments.”

There are many benefits of using digital platforms to handle B2B payments. These include:

- **Streamlined compliance with KYC and AML requirements**
- **Faster transaction speeds**
- **Improved cash flow**

Companies to Watch

Online Payment Capabilities Get a Major Boost



GoDaddy [announced](#) the launch of Payable Domains, a service that allows businesses to register a new domain and start accepting payments from customers. Payable Domains creates a secure checkout page that businesses can share via a link.



Technology provider Mia-FinTech has [launched](#) Payment Integration Hub, an application that bundles all digital payment methods together in a single platform. The new product allows companies to handle the entire digital payments life cycle.



Global payments firm Flywire [announced](#) a partnership with FranConnect, a franchise management technology company, to extend the former's B2B payments platform into the latter's marketplaces to enable franchisors to collect fees from franchisees around the world.



What's Next

New Technologies Will Keep Modernization Moving

Although many merchants have made strides in their modernization efforts in recent years, much work remains. This means that modernization efforts will continue at a rapid pace in the near term. For example, 30% of U.S. merchants believe they currently lack the right mix of digital tools to satisfy customers' experience requirements, according to a PYMNTS [report](#). It is likely that merchants such as these are actively looking to rectify their perceived digital inadequacies, but even merchants well along in their modernization efforts are likely to keep innovating. With developments such as 5G having the potential to [revolutionize](#) B2B payments, merchants' modernization efforts will not stop anytime soon.

“While consumers have embraced digital payments, the way businesses pay other businesses is still complicated and inefficient, oftentimes relying on manual back-office payment processes and paper checks.

Digitizing payments is not only about modernizing the payment process itself. Amex provides businesses with both the information and resources they need to fully automate their AP and AR processes, leveraging their insights to ultimately create a one-stop shop for businesses to pay anybody anywhere.”

DEAN HENRY
Executive Vice President and
General Manager
Global Business Financing, Payments
& Digital Experiences

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About

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