A TreviPay eBook

Embedded Payments:

How to Build Faster, Smarter B2B Payments Systems

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SECTION 1

Introduction: Payments are the New Plastic

“I just want to say one word to you. Just one word. Are you listening? **Payments.**”

If the 1967 movie classic “The Graduate” was remade today, avuncular neighbor Mr. McGuire would whisper payments (rather than plastics) into the ear of college grad Benjamin by way of imparting valuable and timely career advice.

In 2021, there are fortunes to be made based on careful attention to the rapidly evolving realm of B2B payments. This bright future makes it imperative for finance, sales and eCommerce decision-makers in retail, manufacturing and transportation industries – as well as B2B marketplaces serving those and other industries – to:

1. Recognize the different types of disruptions and technological advances coming together in a way that intensifies the competition to "own" B2B customers.

2. Understand the pressing need to develop a future-ready and resilient payments strategy in response to those drivers of change and the new business models they're spurring.

3. Consider embedded payments pivotal role in the future of B2B payments, and identify the building blocks needed to build this strategic capability.

Embedding Ease

Picture your first Uber ride. Recall your surprise (or confusion) when you stepped out of the car and the Uber driver zipped away before you had to run your card through a reader, shell out cash or, well, do anything.

While Uber's ride-hailing-as-a-service model garnered its fair share of attention, the frictionless payments experience the company provides to customers is even more groundbreaking. Keep in mind that many Uber customers are also B2B buyers, a group that increasingly expects B2B sellers to offer a range of payment options, including net terms, that can be transacted as seamlessly as an Uber payment.

B2B sellers and marketplaces that satisfy these heightened expectations will establish stickiness and loyalty with customers, who will spend more with their vendors of choice over their lifetimes.

Opening an eBook about the future of B2B payments with a decidedly analog movie reference is a risk, but it's a calculated one. After all, that touchstone blockbuster, which hit theaters (remember those?) in the tumultuous late-'60s, depicted historic social and generational shifts. The 2020s have barely begun, yet the decade has already been walloped with upheavals – social, generational, environmental, political, epidemiological, technological, economic, supply chain and more – that make the Swinging Sixties look tranquil in comparison.

As modern-day business leaders monitor disruptions and tune in closely to the revolutionary changes to customer experience, engagement and convenience embraced by the rising digital generations on whom their future business performance depends. Getting the payments revolution right requires a firm grasp of embedded payments, given the ripe opportunities accompanying the convergence of disruptions, behavioral changes and technological advances.

Getting the payments revolution right requires a firm grasp of embedded payments.

SECTION 2

Defining – and Distinguishing – Embedded Payments

When evaluating embedded payments, it's important to understand the factors driving its use as a core payments strategy. Those factors (detailed in the next section) include the surging adoption of new operating models (e.g., direct-to-customer sales and subscription-based offerings), changing customer preferences and opportunities to access new sources of revenue.

It's also important to view embedded payments as a core component of a larger embedded finance capability and to note the differences between B2C and B2B embedded payments requirements:

Embedded Finance

Embedded Payments

B2B vs. B2C Payments

Embedded Finance

The term broadly defines the collection of financial processes and services a company offers directly to buyers and consumers in an efficient, unobtrusive manner. The term “frictionless” is widely used these days for a good reason: sellers are striving to reduce the time and effort buyers need to invest in transactions (e.g., payments) and the related steps and processes that must be performed to enable transactions (e.g., credit approval, invoicing, credit card processing, settlement and more).

Retailers with private-label credit cards practice embedded finance, which can also extend to related services, such as investments and insurance. Tesla, BMW and Ford, among other automakers, are seeking to embed insurance coverage in their car-buying process. Ikea’s purchase of a 49% stake in Ikano Bank (which the furniture had spun out in the late 1980s) signals an intent to embed more consumer banking services in sales to consumers.

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Embedded Payments

An underlying purpose of embedded payments is to make the payment process feel like a natural extension of customer engagement as opposed to a separate, toilsome activity. In the B2C arena, most Amazon transactions conclude after a single click. The speed and ease of these embedded payments mask the significant amount of transactional plumbing that must be installed and orchestrated behind the scenes. Based on our work, we've seen companies across many industries consider an embedded payment strategy once they surpass approximately $50 million in monthly sales volumes.

B2B vs. B2C Payments

B2B payments plumbing is far more complex than the transactions and processes that enable B2C embedded payments, which tend to be performed by a single stakeholder (a consumer) using a single payment method (a credit card).

Any given B2B transaction may involve multiple stakeholders (the purchaser, the budget owner, the procurement group, the accounts payable team and others) and numerous different payment options (net terms, purchasing cards, and credit cards among others).

Each of those B2B purchasing stakeholders has unique needs and preferences that must be met, and each payment option comes with a unique set of procedural and technological integrations to be managed.

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While B2B embedded payment requirements require more expertise and work to satisfy, they deliver the same benefits – though potentially at a much larger scale – than B2C embedded payments; these include

- Increased buying ease and convenience
- Satisfying B2B purchasing stakeholders' unique needs and expectations
- Stickier customer relationships, higher shares of wallet and higher lifetime customer values
- Lower day sales outstanding (DSO) and improved cashflow management
- New revenue opportunities for B2B marketplaces

Embedding Engagement

When a TreviPay team visited China in early 2019, we were struck by the integrated nature of B2C payments in retail outlets. We quickly discovered that dining in a restaurant required the WeChat app – to scan a barcode on the table, to peruse the menu, to order from the menu and to pay for the meal via WeChat Pay.

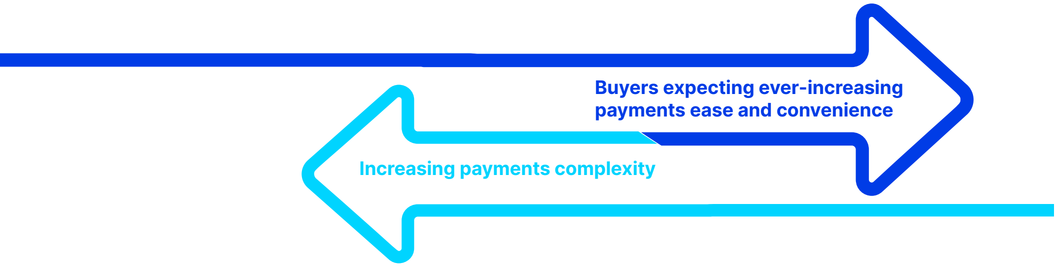
Today, that touchless engagement model seems less novel after a global pandemic greatly accelerated its use in the U.S. and other regions while simultaneously reshaping the preferences of buyers who expect B2B transactions to begin with this type of touchless engagement.

SECTION 3

Drivers of an Embedded Future

A convergence of factors affecting B2B payments is producing two conflicting trends:

1. Buyers expecting ever-increasing payments ease and convenience; and
2. Increasing payments complexity.



“Three years of consumer behavior change was squeezed into one year in 2020,” writes Forrester Principal Analyst Jay McBain.

“Consumers are now demanding online experiences; happily virtual; wanting seamless digital procurement and provisioning; and wanting everything at the click of a button. The delta between B2C buyers and B2B buyers has collapsed during the pandemic. It’s all about speed, convenience, and remote, whether the buyer is acquiring a Peloton or a software product. Responding to the changing buyer, as well as pressure from their stakeholders, several large vendors announced significant changes to the way they go to market.”[1]

“The delta between B2C buyers and B2B buyers has collapsed during the pandemic.

It’s all about speed, convenience, and remote, whether the buyer is acquiring a Peloton or a software product.”

That shift shows no signs of slowing up any time soon, given that the drivers of these types of changes are likely to endure for some time; these forces include:

- Technological advances
- A (digital) generational shift
- Ongoing disruptions that drive new business models
- The adoption of the direct-to-consumer (DTC) model
- The embrace of subscription-based sales

[1] What I See Coming For The Channel: 2021, Jay McBain, Forrester, Jan. 21, 2021: https://go.forrester.com/blogs/what-i-see-coming-for-the-channel-2021/.

Technological advances

Well-documented gains in computing power, bandwidth, mobile connectivity and related advances have used focused creativity and fresh thinking on new ways to perform traditional activities and processes, including payments.

The development and ubiquitous embrace of application programming interface (API) software development approaches has opened up a world of new possibilities for how different supporting technologies can work together to produce more valuable outputs.

A (digital) generational shift

As the first generation that did not experience a world without internet connectivity (or eCommerce, streaming services and one-click purchases) matures, B2B purchasing expectations are evolving in a similar way. Digital natives expect seamless digital experiences.

Digital natives expect seamless digital experiences.

Ongoing disruptions that drive new business models

Just about every business is undergoing some form of disruption, and the scope of that transformation ranges from significant to extreme depending on the industry. Forrester's McBain reports that more than three-quarters of CEOs across all industries believe that their current business model will be unrecognizable in five years.[2]

As organizations develop new business models, those changes are invariably designed to get the company closer to customers and increase customer loyalty by providing more, better and more efficient services and experiences.

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The adoption of the direct-to-consumer (DTC) model

The maturation of eCommerce technology in recent years has opened up lucrative opportunities for traditional sellers to bypass distributors, resellers and other intermediaries and sell directly to end buyers.

More recent supply chain logjams caused by a combination of lean inventories, COVID-related closures, raw materials shortages and extreme weather pose severe challenges to many manufacturing sectors. Think of how difficult it is to obtain computer chips, lumber or even a carbon mountain bike frame today.

[2] Are Distributors The Future Of Distribution? Jay McBain, Forrester, Feb. 24, 2021: https://go.forrester.com/blogs/are-distributors-the-future-of-distribution/.

These supply chain snafus are generating even more interest in DTC approaches. To successfully implement a DTC model, manufacturers and other companies need a sophisticated payment strategy. Addressing the payments preferences of 10,000 customers is fundamentally different than doing the same for 100 resellers.

The embrace of subscription-based sales

The pandemic's trend-acceleration impacts extend to the subscription economy, which UBS forecasts will grow to $1.5 trillion by 2025, more than doubling the $650 billion it is currently estimated to be worth.[3]

$1.5 Trillion

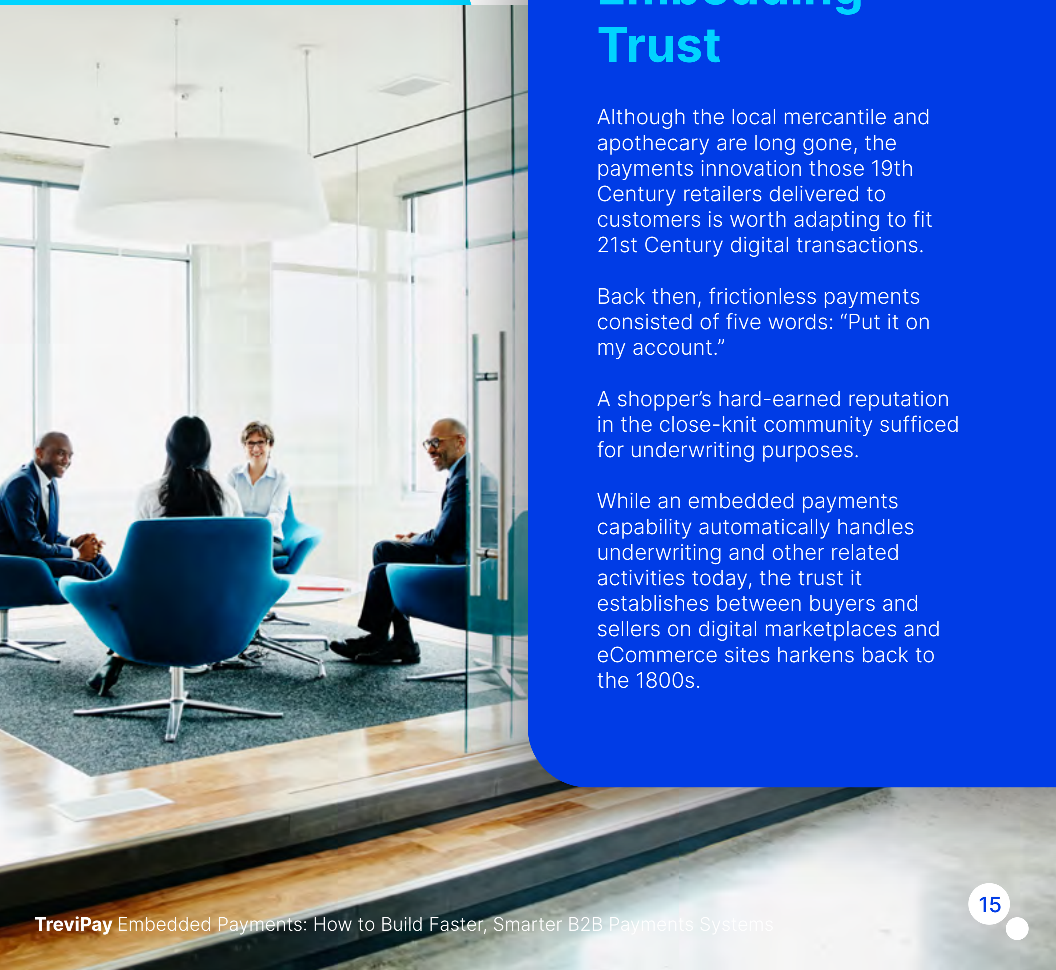
Estimated worth of subscription economy by 2025

As more B2B sellers adopt subscription-based, or consumption, models they have an understandable desire to get closer to their buyers. Developing an ever-deeper understanding of a buyer's preferences increases the odds that the buyer will renew the subscription. Obtaining that knowledge can be difficult because the shift to subscription models require significant changes to pricing, billing and invoices and payments.

B2B companies that earn the highest renewal rates will be those that master the complexities of the consumption-based billing model while extracting actionable insights from the billing and payments data to drive customer experience improvements.

[3] Everything's becoming a subscription, and the pandemic is partly to blame, By Heather Long and Andrew Van Dam, The Washington Post, June 1, 2021: https://www.washingtonpost.com/business/2021/06/01/subscription-boom-pandemic/.

Most, if not all, of these factors ultimately intensify competition for ownership of the customer. Think of the way that Amazon strives to generate revenue from nearly every single item a consumer purchases; more B2B companies will drive and/or face similar competition in their industries. As that occurs, most B2B companies will need a payments strategy that centers on embedded payments capabilities. Getting there requires hard work.



Embedding Trust

Although the local mercantile and apothecary are long gone, the payments innovation those 19th Century retailers delivered to customers is worth adapting to fit 21st Century digital transactions.

Back then, frictionless payments consisted of five words: "Put it on my account."

A shopper's hard-earned reputation in the close-knit community sufficed for underwriting purposes.

While an embedded payments capability automatically handles underwriting and other related activities today, the trust it establishes between buyers and sellers on digital marketplaces and eCommerce sites harkens back to the 1800s.

SECTION 4

Invisibility is a Heavy Lift

If your customers don’t already expect payments processing to be as invisible as possible today, they will soon. Embedded payments can enable that invisibility; however, building the capability in-house requires significant work, technical expertise, and a firm grasp of all of the costs that can arise.

The most formidable challenges include:

- **Implementing and/or redesigning processes**
- **Integrating different sytems and technologies**
- **Opportunity Costs**

Implementing and/or redesigning processes

The most effective payments strategy offers a range of options that address different buyers' preferences and needs. When a buyer wants to pay on net terms, the seller must decide whether, and how much, to extend credit to the buyer. If a buyer doesn't qualify for terms, other payment options (direct debit, credit card, p-cards or buy now pay later options) should be available – and the company must be able to process those types of transactions.

Additionally, the underwriting process should include sufficient KYC and AML fraud-detection processes to verify customers' identity. These and other considerations require a substantial amount of process implementations and reconfigurations.

Integrating different systems and technologies

Systems integrations help make the buying experience much more satisfying. Replacing a paper or PDF invoice with an invoice portal that automatically transmits payment data to the buyer's accounts payable application (or ERP system) delivers that satisfying experience, but it takes a substantial amount of back-end integration to enable.

APIs are a crucial building block of embedded payments. As such, organizations that pursue an embedded payments strategy should determine whether they have the expertise and capacity to perform these integrations.

Opportunity costs

The process and technology work needed to enable embedded payments requires expertise; it also consumes time and investments. There is also the opportunity cost of siphoning resources from a company's core competency of creating and selling its offering in order to stand up a new payments capability. When the company is implementing that capability as part of a major shift to a new business model (DTC or subscription-based selling), the opportunity cost can quickly become too high.

While those challenges should motivate decision-makers to evaluate partnering with an embedded payments solutions provider, they also signal the importance of pursuing a new payments strategy sooner rather than later. When conducting that type of evaluation, the following points require close consideration:

- A confluence of factors — generational preferences regarding digital experiences, supply chain upheavals, technology advances, business model transformation and other long-term retrenchments — are driving profound changes to B2B buyers' expectations concerning their payments experiences.
- Competition to "own" customers will intensify.
- The most effective embedded payments experiences make a company easier to do business with by letting the buyer interact, and transact, on their preferred terms.

B2B companies that get embedded payments right will grow their share of the customer's wallet while engendering stickier loyalty.

The need for new payments strategies will continue to increase. As leaders reassess their current approaches, they should look closely at the long-term value an embedded payments capability delivers.

As Mr. McGuire would tell Benjamin in The Graduate's 2021 reboot: "There's a great future in embedded payments. Think about it. Will you think about it?"

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About TreviPay

TreviPay is a global financial technology company specializing in payment and credit management for B2B companies through custom omni-channel payments solutions. We support merchants by streamlining the purchasing experience and supporting increased customer interaction in B2B Commerce, facilitating $6 billion USD in transactions per year in 18 currencies for customers in more than 27 countries.

To learn more about TreviPay, please visit www.TreviPay.com