



2022 MARKET OUTLOOK

Three Trends Shaping the
Digitization of B2B Payments



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PRIORITY



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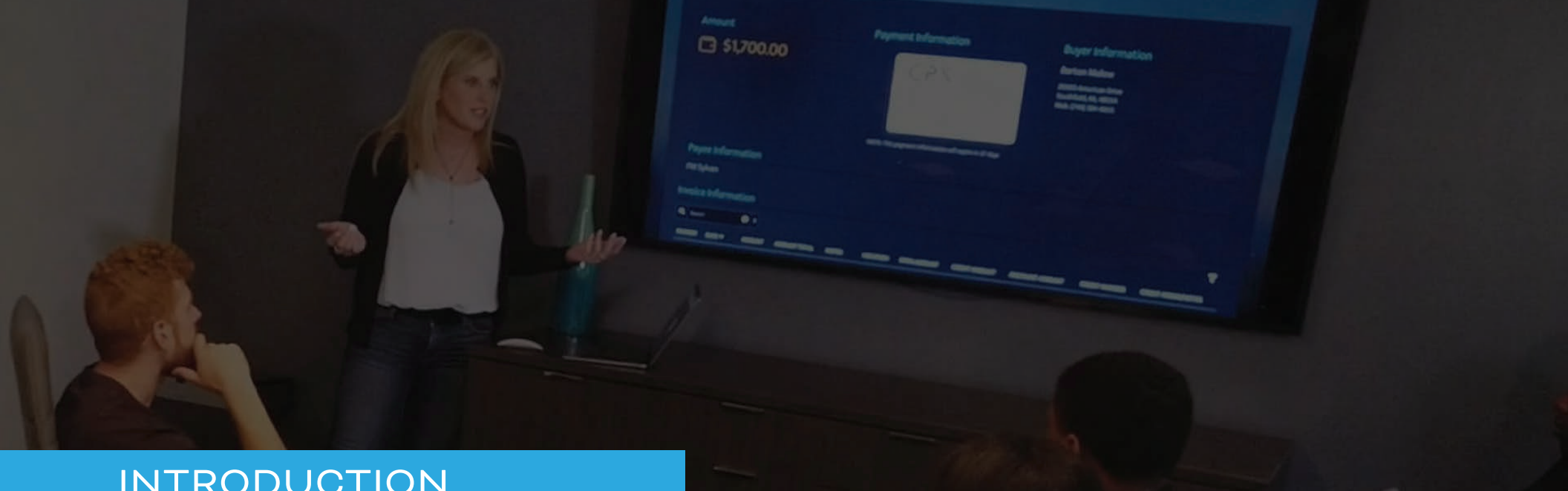
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INTRODUCTION

Recently, we've experienced a significant shift towards—and rapid acceleration of—people adopting digital payments. The emergence of the touchless and contactless ways consumers now pay is here to stay. These intuitive digital-first payments are transforming transactions, whether we're checking out at the grocery store or paying for a doctor's appointment. Digital payments offer a frictionless experience that is easy, speedy, convenient and even safe. While the most noticeable acceleration of digital payment adoption may be happening in our personal lives, the number of financial institutions participating in the RTP® network, combined with the latest automated payables solutions available, show how digital transformation is under way with B2B payments.

Given today's labor shortages and supply chain challenges, small and mid-sized business want simplicity with processes that efficiently manage their accounts payables (AP) and accounts receivables (AR), improves their cash flow and overall visibility into their business operations.

The latest technologies provide the much-needed automation and electronic methods that improve the overall B2B payment experience for both the supplier and buyer sides of the transaction.

This report provides valuable insights gleaned from interviews with payment industry leaders and discusses three trends shaping the digitization of B2B payments. By adopting the corresponding technology solutions covered in this report, small and mid-sized companies will more competitively position themselves for an increasingly complex market place.

These technologies move companies away from outdated legacy systems to a modern digital payment experience that improves relationships between companies and their partners who supply them with materials, goods and services that are critical for their continued success.

Key factors driving B2B digitization trends.



1. REAL-TIME PAYMENTS (RTP)

The RTP® network is a real-time platform from The Clearing House.¹ It represents the first new payment rail in decades that offers a truly instant exchange, 24/7, between banks in the U.S. It's anticipated that RTP will propel numerous innovations and most certainly help digitize B2B payments. It's forecasted to continue on a double-digital growth trajectory with a "compound annual growth rate (CAGR) of nearly 24 percent for real-time payments between 2020 and 2025."²

2. AUTOMATED SOLUTIONS REDUCE PAYMENT COSTS

Many companies might have first realized the benefits of automated solutions as they navigated the challenges presented in 2020, but the value they offer means these solutions will keep gaining momentum. According to a Goldman Sachs B2B Payments Equity Research report, "Now a new generation of automated solutions is emerging that could dramatically cut business-to-business (B2B) payment costs, speed up processing and unleash a wave of small business productivity."³

3. MILLENNIALS' DIGITAL-FIRST EXPECTATION

By 2025, Millennials will comprise half of the American workforce,⁴ and 75 percent of the global workforce.⁴ This group expects digital experiences that are easy, intuitive and fast whether they're booking a golf tee time, ordering a coffee from a mobile app or requesting a rideshare. Their mindset for such simple, streamlined digital-first experiences extends to their expectations for B2B payments processes.

TREND ONE

Banking, payments and software converge with real-time payments

2020 was a wake-up call for small and mid-sized businesses who lagged behind with their adoption of advanced technologies providing modern digital tools and automation of key business operations. Companies experienced disruptions with where and how people worked, leading to the need to quickly shift processes—most notably, how to handle payments remotely. The upheaval with supply chains and labor shortages underscored the need for simplicity with accounts payables (AP) and accounts receivables (AR) workflows.

As Thomas Priore, executive chairman and CEO of Priority Technology Holdings, noted in a recent PYMNTS.com article, today's business environment is leading to the convergence of banking, payments and software: ⁵ Businesses want a solution where it's all possible in one place. As business transactions happen faster, firms across industries—whether construction, manufacturing or healthcare, for example—are paying their suppliers faster, whether on-demand or on-site, to secure much needed materials and services. Meanwhile, there's a growing number of ways to place business orders and pay suppliers—all of which adds complexity to business transactions.

Automated software solutions connecting banking and payments give businesses the ease, convenience, quickness and flexibility they need to conduct orders and payments. RTP is at the heart of this connectivity.



Today's business environment is leading to the convergence of banking, payments and software.

THOMAS PRIORE

Executive Chairman and CEO
Priority Technology Holdings

TREND ONE (CONT'D)

Rise of real-time payments (RTP)

The RTP[®] transaction network is a real-time platform from The Clearing House¹ that represents the first new payment rail in decades and offers a truly instant exchange between banks in the U.S. It's faster than payment cards and even the peer-to-peer payments that can actually take a day or more to clear. With the ability to transact 24/7, RTP breaks away from the limitations of payments clearing and settling during traditional business banking hours Monday through Friday.

According to Michael Cummins, head of treasury solutions at Citizens Commercial Banking, "Real-time payments is the most sweeping change to the U.S. payment system since the 1970s and businesses see this as a crucial opportunity to modernize their payment practices."⁶ In fact, it is forecasted to experience double-digital compound annual growth rate of "nearly 24 percent for real-time payments between 2020 and 2025."² RTP should support innovations for multiple use cases, including shifting businesses toward electronic payments. Research from Citizens found, "Sixty percent of businesses say it will mean the end of payments by cash and check."⁶



“Sixty percent of businesses say it [RTP] will mean the end of payments by cash and check.”

Citizens Commercial Banking Research

Supplier
Jane Doe
Internal ID
3f08a01e-17a7-5df7-bc2a-39aa9e9bfcf6

Amount
\$1,000.00
Import Date
09/19/2019 1:16 AM
Status Date
09/20/2019 12:19 PM
Billing Address
123 Main Street, Alpharetta, GA, 30004
PRN
906101946414

Card
Last 4
4410
Reference
Transaction ID
ff5f35ca-f155-4664-9cc3-ea6efdb3a1f6

TREND ONE (CONT'D)

Compelling benefits drive adoption

The benefits small and mid-sized businesses realize from adopting real-time payments include accelerating the cash flow from receiving funds. In fact, the same Citizens research found that “Fifty-nine percent of businesses said real-time payments would help them manage cash flow more effectively,” while the majority (82%) of businesses said “Real-time payments solves many of the problems with the current payment options, such as the gap in time between making or receiving a payment and when the funds clear.”⁶ Digitization of B2B payments also decreases costs by automating time-consuming and manual payables processes such as generating invoices and paper-based checks. Additionally, it offers more accurate reconciliation and access to near real-time AR/AP data for better on-the-fly-decision-making.

Real-time payments will make it possible for more brands to leverage banking-as-a service (BaaS), which is defined as, “A model in which licensed banks integrate their digital banking services directly into the products of other non-bank business.”⁷ Allowing non-bank brands to offer banking services potentially could boost a company’s revenue by providing its buyers access to the funds needed for larger ticket items or purchases.

For example, a commercial airline could offer a small business an instant loan to purchase a plane ticket. The airline also could offer a co-branded payment card allowing that customer to purchase the plane ticket or other products and services beyond those of the airline and earn rewards for future travel on it. RTP makes BaaS’ compelling proposition possible by allowing small- and mid-sized businesses to be approved almost instantly for funds they need to make a purchase, while the non-bank company generates revenue from sales they might not have made otherwise.

With the value RTP offers, companies are on board, “Real-time payments (RTP) have been adopted by nearly 40 percent of large enterprises in the nation, and that penetration is on track to grow. Fully two-thirds of U.S. companies say they’re likely to adopt RTP in the next two years,” concludes a report from Level Research.⁸ This same report found over one-third of survey respondents (34%) conduct RTP through their AR/AP software provider, while 76% plan to utilize third-party providers to adopt it.⁸

TREND TWO

Acceleration of digital technologies

Digital solutions transform transactions by streamlining processes across business operations to positively impact people. Market dynamics have made it more important for many companies to prioritize implementing technologies that support digital-first operations. By doing that, they satisfy the fundamental need to gain efficiencies, reduce operating risk, minimize physical contact, and generate revenue through new offering buying channels and payment methods.

To quote Ben Ellis, global head of Visa Business Solutions, “The digital revolution has already taken the world of consumer payments by storm; research from IMARC forecasted the global mobile payment market to reach \$3.08 trillion by 2024.”⁹ To compete effectively in today’s changing B2B marketplace, businesses must follow suit by taking a digital-first approach that supports operations and improves connections with their employees, buyers and suppliers. Essential to this approach is digitizing B2B payments to simplify payment-related workflows.

There are strong indications that this is about to happen. According to Goldman Sachs, “Digital solutions that provide end-to-end services including accounting, pre-payment process management and payment processing can make the digital conversion less painful. Although adoption has been slow, we believe this market is finally poised to accelerate thanks in large part to the new payment and software technologies coming to market.”¹⁰ The ongoing evolution of the trio of solutions mentioned has put us on the cusp of the automation of B2B payments.

TECHNOLOGIES UNDERPINNING DIGITAL-FIRST OPERATIONS

5G, cloud technology, and artificial intelligence (AI) are just three of the advanced technologies foundational to digitizing B2B payments operations.

The fifth generation of wireless technology, 5G, has already improved payments by offering the fastest speeds ever for accessing data, processing payments, and enhancing connections between companies, people, and devices. Consumers experience this using mobile apps to order, pay and receive their items, whether curbside or by delivery. This information flows between multiple entities quickly and easily: 5G will impact “how information moves, how much information is moving, and how we are connecting to one another,”¹¹ according to Mastercard.

The power of 5G will improve speed and connectivity for automated solutions powered by cloud technology such as software-as-a-service (SaaS), which set the standard for using any device to access the data and services we need anytime and anywhere. For B2B payments, AI-based solutions replace manual and repetitive tasks and, consequently, eliminate inefficiencies and speed the workflows. And with the BaaS model vast amounts of information are processed almost instantly to evaluate risk and make decisions that provide access to banking products. These are just two examples of how AI impacts B2B payments.

The same technologies driving the digital shift in consumer payments are set to modernize a B2B payments landscape that often is still defined by manual processes, disconnected systems and slow settlement times—all of which create numerous pain points for buyers and sellers alike.



TREND TWO (CONT'D)

The digitization opportunity

The same technologies driving the digital shift in consumer payments are set to modernize a B2B payments landscape that often is still defined by manual processes, disconnected systems and slow settlement times—all of which create numerous pain points for buyers and sellers alike. While digitizing workflows and payments proved essential for continuity, convenience and safety during the pandemic, it can deliver other necessary benefits moving forward. Based on analysis of payment flows, Mastercard estimates that the U.S. “business-to-business (B2B) payments market is in the range of USD 25 trillion annually, with checks accounting for more than 50% of the overall transaction value.”¹² This represents an enormous opportunity to shift trillions of dollars of payment volume.

Companies adopting automated software solutions to digitize B2B payments will reap the rewards such as reducing inefficiencies through streamlining processes. The Goldman Sachs B2B Payments Equity Research report cited previously suggests that these solutions could cut costs by up to 75% and unleash \$1.5 trillion in small business productivity.³

TREND TWO (CONT'D)

Automated AP/AR solutions boost productivity

As they move toward faster B2B payments, companies now can access a range of automated tools to meet their changing needs. In an interview with Priority, Julie Schmitz, partnership development and innovation manager at Heartland Financial USA, Inc., asserted that “Small to mid-sized companies now expect comprehensive automated account payables and account receivables solutions to reduce time and expenses”¹³—a need she stressed has been exacerbated by the labor shortage impacting business across industries.

The next generation AP/AR software streamlines processes to increase productivity by eliminating manual paperwork, minimizing errors and reducing delays. These tools increase flexibility for deciding how to best serve customers and support suppliers. Among other things, digital tools expand how and where payments can happen, and alerts can be set up based on low cash balances or even to follow up on outstanding invoices.

In our interview with Schmitz, she stated that, “Businesses and their suppliers seek the value of digital payments as a way to ease the burden of payment reconciliation on both sides of the transaction, as well as a way to increase real-time visibility with reporting.”¹³ For example, AI’s intelligent technology makes reconciliation easier by automating tasks such as receiving accounts payable invoices and reading the key information to code them for payment. This lets teams focus on higher value responsibilities. It can even speed up the time to pay a supplier and to realize discounts or other incentives for making an early payment. By offering businesses full visibility into processes and AP/AR payment data, cloud-based software solutions with interactive portals improve their decision-making by laying out a more holistic view of their operations. This could be especially important when a company needs to quickly understand how to proceed with unexpected and urgent orders.



Small to mid-sized companies now expect comprehensive automated account payables and account receivables solutions to reduce time and expenses.

JULIE SCHMITZ

Partnership Development and Innovation Manager
Heartland Financial USA, Inc.

TREND THREE

Elevating the payment experience

Digital payments transformation has positively impacted people's everyday lives, whether it is reading a menu using a QR code, splitting the restaurant tab with a friend, or shopping online with one-click payments. What's notable here is the simplicity of the experience – intuitive, easy, seamless and quick.

Digital-first transactions matter when creating positive, frictionless payment experiences, where users don't even have to enter payment or banking details. Since this data is integrated there are minimal steps beyond authenticating with a thumbprint or similar biometric identifier. Just as consumers have sought experiences with brands and companies that make their lives easier and better, so, too, are commercial businesses avidly pursuing transactions processes that simplify the increasingly complex manual workflows typical of B2B payments. According to Forrester Research, "Disruption is turning B2B buying and selling on its head. Quick and efficient B2C buying journeys have reshaped B2B buyers' expectations..."¹⁴

Truly, what's propelling this transition to digitizing B2B payments workflows is the combination of needs, preferences and behaviors that people express in their dealings with the businesses from which they buy products and services.

Moving beyond the old ways of transacting

Today's more traditional B2B transactions are riddled by challenges characteristic of legacy systems that require time-consuming and costly maintenance and updates. B2B commerce increasingly is being heavily influenced by the typical consumer experience that has seen paper replaced by one-click steps that move payments into the background. B2B companies have a significant opportunity to create a positive payment experience between themselves and their supplier partners. According to the payment industry experts we interviewed, there's at least a handful of ways to do this.

Schmitz told us that "Businesses now expect the same convenience and ease of a consumer payment within their business payments. They want to shift away from logging into multiple online portals or having to make calls to submit a payment. Rather, they want to send a single file to execute on all their monthly payables across their multiple suppliers."¹³ She added that "This remittance data will continue to take an important role in how businesses make payments. It allows for better reporting and reconciliation, which is critical as businesses seek to make more informed decisions."¹³ Providing this data can make it easier to reduce the gap between AP and AR departments. It speeds payment processing by providing clarity for reconciling opaque invoices like partially paid ones or payments covering multiple invoices.

TREND THREE (CONT'D)

In our interview with Frank B. Martien, managing partner of Windward Strategy, Inc., he, too, emphasized the role of the payment experience: “What has become paramount are not only the back-office processes; also and possibly even more important is the customer experience. The monumental convergence of dozens of applications onto a smartphone is metaphorical to how companies are now considering provider decisions for software to run their business, including integrated banking and payments functions.”¹⁵ Martien expanded on how, automation solutions provide a better and seamless experience. “The transformation away from reconciling spreadsheets from disparate data sources towards completely integrated purchasing, posting, payment, and reconciliation has defined nirvana as an invisible payment experience more similar to the consumer experience.”¹⁵ Digitizing payments allows companies to focus more attention on developing deeper relationships with the buyers and suppliers with whom they do business.

Suppliers payment preferences and realizing savings

Another area ripe for improvement is companies taking the time to understand what type of payment would work best for each supplier, whether it's an ACH payment, a virtual card, a wire or even a check. While this may seem time consuming, the right providers offer this as part of a suite of services included in their automated payables solutions. Buyers will be delighted to capture savings by taking the time to identify the optimal payment method by paying their suppliers early in exchange for a supplier discount, thereby reducing the amount due. For suppliers, discounting their invoice may be worth eliminating payment delays and improving their cash flows. Overall, better connected and automated systems improve relationships between buyers and suppliers to create a payment experience that works better for everyone.



The transformation away from reconciling spreadsheets from disparate data sources towards completely integrated purchasing, posting, payment, and reconciliation has defined nirvana as an invisible payment experience more similar to the consumer experience.

FRANK B. MARTIEN

Managing Partner
Windward Strategy, Inc.

CONCLUSION

The trends we've detailed in this report, and the factors influencing their growth, have been made possible by a convergence—of the need and desire for real-time payments, the maturation of vanguard technologies, and consumer's preference of digitized payments infiltrating the B2B world. The compelling benefits offered through digitizing B2B payments for businesses will prove to be extremely appealing, and positively transform them.

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ABOUT US

Priority is a leading payments technology company helping customers collect, store and send money. Priority CPX represents the next-generation digital Accounts Payable (AP) automation solution for businesses and organizations of all sizes and types. Without replacing your accounting software or changing banks, Priority CPX integrates and processes all forms of AP payments to your suppliers from a single payment instruction file, while generating cash-back rebates to your bottom line.

Priority CPX enables you to eliminate inefficient manual payments, maximize cash flow, earn rebate incentives, reduce errors, protect against fraud, free up resources and keep your suppliers happy. To fully digitize AP payments and monetize your supplier spending, our experienced team handles all of the integration and takes the burden of supplier enablement off your team.

In addition to CPX and supplier enablement, Priority's B2B payment solutions and services include ACH.COM, commercial acquiring, managed services and card issuance.

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