Credit Key

White Paper:

B2B Payment Solutions Buyer’s Guide

Introduction

Over the last several years there have been a plethora of B2B payment solutions coming to market. In doing so, it has been extremely difficult for companies to understand what option may be best for their business because most payment offerings communicate very similar benefits.

The goal of this document is to help businesses understand the differences between these offerings and figure out a foolproof way of choosing the best payment option for their business. Covering the main payment options of in-house credit programs, credit management, Buy-Now-Pay-Later solutions, and equipment financing.

If your business still has questions or concerns about the B2B payments space, and you need help in deciding the best fit for your business, please do not hesitate to reach out to me directly.

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Step One - Identifying Your Needs, Goals and Challenges

Before looking into B2B payments or financing solutions, a business first needs to be aware of what they are trying to accomplish. With the plethora of B2B payment options in the market with very similar benefit statements, they tend to blend together. By establishing clear needs or goals it helps to declutter the offerings and see clear winners for their specific needs customers love without any risk of unpaid invoices.

Here are some main needs:

- Looking to extend net terms (currently do not)
- Want to continue extending terms but with fewer resources
- Want to mitigate payment risk
- Looking to expand current offline payments into e-commerce settings
- Actively looking for ways to grow sales (online and offline)
- Customers are asking for long term financing

Payment Risk / Human Resources

When businesses consider extending credit to their customers what is commonly on top of mind is payment risk. For a good reason, essentialy you are trusting customers to buy goods from you using what is essentially an IOU.

When managing an internal credit program there is not a great way to completely mitigate the risk. Investing in invoicing software, credit databases, credit insurance, etc. all play a vital role in minimizing the risk but it takes a lot of financial and human resources to do it.

That is the main reason for the growth in Credit Management and Buy Now, Pay Later solutions in the B2B space. By automating credit programs through a lending solution businesses can immediately decrease fixed costs and needed overhead while still offering the payment offering their customers love.

Cash Flow/Working Capital - Opportunity Cost

Offering credit has historically been seen as a sales tool. In order to get your customer to buy more products and services, businesses offer the opportunity for businesses to pay 30, 60, or 90 days after invoicing. Sadly, this promotion has become a norm in B2B transactions.

In doing so, businesses have been finding it tougher to maximize their workflow and working capital due to slow payments and not recognizing cash on the books until months after businesses made a sale. This can be extremely frustrating for smaller businesses that are selling to larger accounts that require longer payment terms.

But what if businesses could offer terms to their customers and still get paid within days? This is the benefit of B2B payments (Credit Management, Buy Now Pay Later, Equipment financing). By outsourcing the credit process businesses can drastically increase their working capital and immediately reinvest their sales revenue.

Order Value

As referred to in the Cash Flow section, credit terms are a sales tool proven to increase sales and order value. Commonly longer the terms, the larger the order size. For companies looking to drastically increase sales by offering B2B payments should look into longer- term programs to increase Average Order Value, while still offering standard net terms for smaller more frequent purchases.

Integrations

One of the largest reasons for the continual growth in B2B payments is because it takes the manual steps and resources out of extending credit to your customers. Without a seamless integration into your current tech stack, a fully automated process is nearly impossible.

By choosing a B2B payment provider that integrates to your tech stack businesses can easily move customers to buy online and have the same customer experience.

Benefit	In-House Credit Program	Credit Management Solution	Buy Now, Pay Later	Equipment Financing
Payment Risk	Full Payment Risk	Varies depending on the provider	No Payment Risk	Varies depending on the provider
Human Resources	Full-time employees needed	No employees needed	No employees needed	No employees needed
Cash Flow	Paid when the customer pays	Paid within days of purchase	Paid within days of purchase	Paid within days of purchase
Order Value	Minimal growth over credit cards	Minimal growth over credit cards	Drastic growth over credit cards	Drastic growth over credit cards
Integrations	No Integration	Payment Integration	Payment & checkout integration	No integration

Step Two - Identifying the Needs of Your Customers

Now that you have outlined your needs, you need to look into the needs of your customer base. Keep in mind that many businesses have multiple customer segments so you may need to identify each segment separately (SMB, large enterprises, startups, etc.).

Once you have your customer segment in mind you need to identify what they are trying to accomplish. This can be commonly done by analyzing what they are buying, how easily they can afford it, how quickly they need it, and how they like to shop for it.

Approval Rates

Above in a short exercise, you have identified who your customer segment is. This plays a huge role in the B2B payment provider you select. This is because every B2B payment has a different risk threshold for who they lend to.

If you sell to small SMBs that are commonly sole proprieters, it would not make sense to use a B2B platform that has a low-risk portfolio as they do not approve less creditworthy businesses. Instead, you should be looking for an offering that specializes in small business underwriting.

B2B credit management companies can be across the board on their risk management. Typically the cheaper the transaction fee, the lower the risk portfolio. This is because the payment company expects fewer losses from more creditworthy businesses (midsize-enterprise accounts) and therefore can charge less for their underwriting.

This can cause extreme confusion for suppliers looking to choose the best provider for their business. Of course, a business wants to pay as little as they can per transaction but if the payment solution they chose never underwrites a single account - then what is getting solved?

Some companies have also lowered costs by taking some risks off their portfolio. They do this by only paying 90 - 50% of the invoice upfront on transactions, paying the merchant the remainder of the invoice when the customer pays.

This helps to lower costs per transaction, but makes it an accounting nightmare for the supplier due to multiple transactions per invoice and still leaving invoices open for the whole payment term.

Be sure throughout the process of choosing a B2B provider to keep your customers in mind and make sure that you choose a solution that is best for them and not what is the cheapest offering.

What Are Your Customers Buying?

For example, a business owner buying a gallon of paint for their store likely has very different needs than a farmer trying to purchase a new tractor for their field. As the purchase amount grows, typically so does the need for more payment options and longer payment periods.

Small purchases or monthly recurring orders are commonly handled through common payment methods such as: cash, credit cards, or even standard credit programs (like a net 30).

Larger purchases that are outside of a typical recurring purchase for a business commonly need financial assistance - needing months or years to pay off the transaction instead of a typical net terms program. In these instances, business buyers commonly look at equipment financing or Buy Now, Pay Later Solution.

According to our survey of over a hundred businesses, business owners elect to push out payment longer than a typical net terms program, not just for large orders, but also small purchases as well. In doing so, businesses are able to increase working capital and cash flow risk'.

Below shows the percent of business buyers that elect each payment term, based on their creditworthiness.

How Quickly Do Your Customers Need Financing?

In B2B payments, the time it takes to receive financing can vary heavily. A typical in-house credit team can take anywhere from 2 to 7 days to approve a new customer. Typically automated credit management platforms or equipment leasing companies can beat that approval speed significantly by approving new customers in a couple of hours or at least within a couple of days. In the instant of a buy now, pay later solution, approvals happen instantly. The fastest approval speed come with Buy Now, Pay Later Solutions which instantly approve customers right at point-of-sale.

	30 days	60 days	90 days	6 months	9 months	12 months
Tier 1	2.10%	1.10%	7.80%	19.60%	2.10%	67.10%
Tier 2	5.10%	3.80%	13.40%	37.20%	20.30%	19.90%
Tier 3	3.40%	10.90%	19.50%	59.70%	4.50%	1.70%
Tier 4	3.20%	1.60%	11.30%	80%	4.80%	Not Avail

Term preference as a percentage of all Credit Key orders by tier.
Despite what people think, all customers prefer longer terms.

Min	Max	AOV
$187	$24,694	$4,535
$18	$13,163	$3,208
$107	$9,949	$2,590
$81	$15,331	$2,710

Credit Key AOV's increase as terms increase.

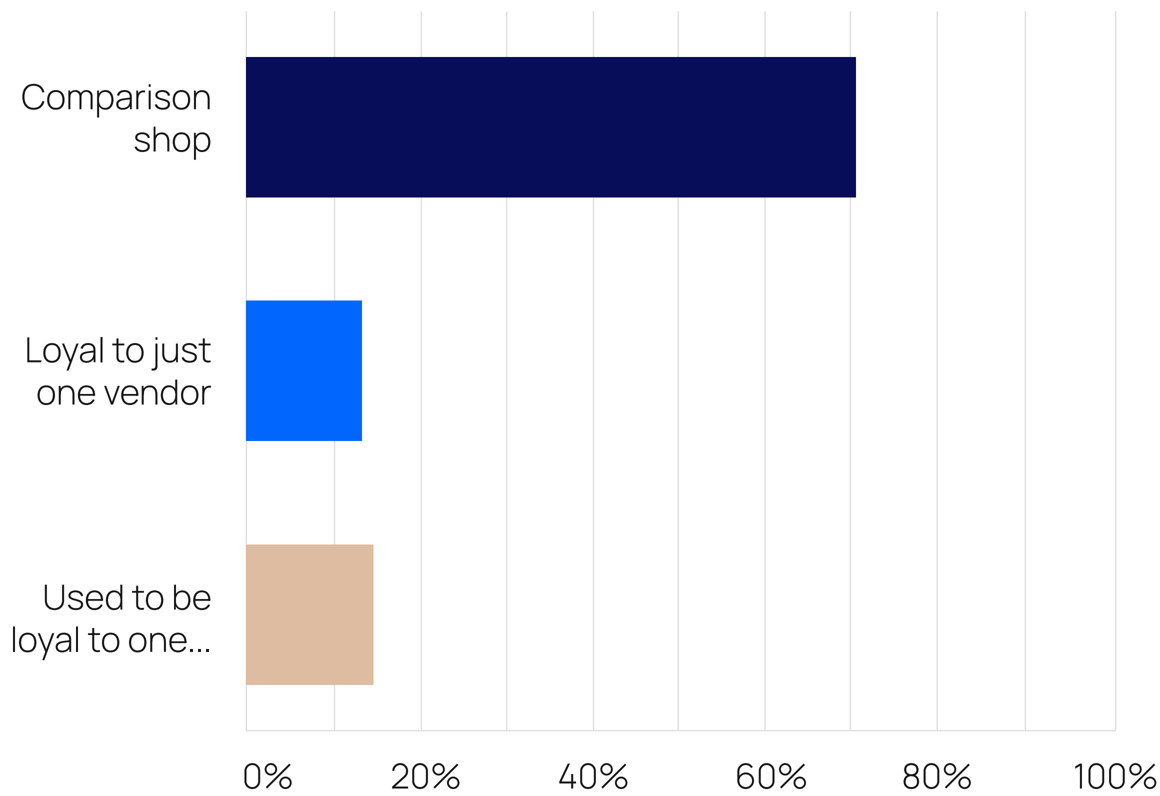
Source: Key Insights Report

So why does approval speed matter? You can argue that your current repeat customers' approval speed does not play a role in the needs of your customer - once approved they can use that credit line over and over again without re-applying. Where speed of credit approval plays the largest role is with customer acquisition.

When a fryer at a restaurant goes out and they need a new one, they do not want to wait days to get a payment plan. Every minute their fryer is not working is more time they are not making money on fried food. By not immediately financing new customers, merchants are allowing a potential sale to go elsewhere to find the payment terms they prefer.

In a survey of over a hundred business owners, we found 70 percent of customers prefer comparison shopping over being loyal to one vendor. Meaning, if you are not offering what they want, they have no problem going elsewhere.

Prior to purchasing equipment and supplies do you normally comparison shop or are you loyal to one vendor?



Source: Key Insights Report

How Do Your Customers Shop?

Since the pandemic, the way consumers and businesses shop has drastically changed. We have shifted away from in-person sales to buying digitally through eCommerce. In 2021, Prime Day alone grossed $6.8 billion in sales making it an increase of 9% from last year thereby showing the growing preference for shopping online.

These trends also play a role in what payments are best suited for your business. If your customers shop online, does an in-house credit program really fit? Downloading Pdfs, email or faxing credit applications, and approval delays go against the speed and user experience of online shopping.

If your business is selling online or intends to in the future, it is wise to look into a payments solution that can speed up that experience and make it as fluid as paying with a credit card.

Benefit	In-House Credit Program	Credit Management Solution	Buy Now, Pay Later	Equipment Financing
Credit Terms	Typically 30-60 days	Typically 30-60 days	30 days to 12 months	12 to 36 months
Approval Speed	2-7 days	1-48 hours	Instant	2-48 hours
Integrations	No integration	Payment integration	Payment & Checkout Integration	No integration
Size of Credit Line	Up to company risk portfolio	$50k to $250k (dependent on vendor)	Instant $50k, up to $200k	Up to $500k

Step Three - Choosing a Solution

At this time in the document, we should have identified your needs and your customers' needs while having general knowledge about how payment offerings differ. This section is just to outline the main differences between these solutions.

1

In-House Credit Program

Pros

- The business is in charge of who they approve and do not approve for credit lines
- A small increase in sales in comparison to credit card/cash payments

Cons

- Take human resources
- Expose business to payment risk
- Do not integrate well to online selling
- Negative cash-flow/working capital
- Slow application and approval process

Typical Use Case

- Offline sales and long history with the current customer base

Typical Buyer Case

- To be decided by the company

2

Credit Management Platforms

Credit Management platforms are essentially third-party credit programs. Underwriting your buyers for lines of credit. Typically the supplier pays a transaction fee and the program is free to use for the buyers (similar to a credit card model).

Pros

- No cash flow concerns
- No payment risk (in a non-recourse model)
- Automated credit approvals
- A small increase in sales in comparison to Credit Card / Cash payments

Cons

- Not an immediate approval process (2-48 hours)
- No payment terms passed 90 days
- Risk portfolio (many struggles to under write small businesses)

Typical Use Case

- For businesses that currently extend terms or would like to without having payment risk, cash-flow concerns, or added human resources

Typical Buyer Case

- Large to mid-sized businesses that have repeat every day orders

3

Buy Now, Pay Later

Buy now pay later solutions to offer immediate approvals and flexibility for small business buyers. Giving them the ability to pay off purchases in 30 days risk-free or extend payments out to 12 months.

Pros

- No cash flow concerns
- No payment risk
- Instant and fully automated credit approvals
- A drastic increase in sales in comparison to credit card/cash payments
- Increase in conversion rates

Cons

- A preferred purchasing option companies SMB - utilized less for large business purchasing.

Typical Use Case

- For businesses looking to actively automate and increase their SMB customer spending with their business.

Typical Buyer Case

- Small businesses that need to make larger orders for their business.

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Equipment Financing

Pros

- No cash flow concerns
- No payment risk
- Automated credit approvals
- Drastic increase in sales in comparison to credit card / cash payments

Cons

- Typically not utilized by enterprise buyers
- Low frequency use

Typical Use Case

- For businesses that sell large ticket items that their buyers need years to pay off (typical large machinery)

Typical Buyer Case

- Small businesses that need a significant loan to purchase a one time purchase.

By now, we hope this Buyer's Guide has helped you in understanding various B2B payment options in the industry and how to define your needs, goals and challenges to select the right vendor. Buying the right system and choosing the right vendor is key to business success.

Credit Key allows merchants to buy now and pay later by breaking down their purchases into flexible monthly payment options.

Buyers that use Credit Key place more orders and often spend more per transaction. And merchants can get paid in a matter of days, while buyers can extend payments out to 12 months. Credit Key has helped many businesses increase:

- Grow average order value
- Increase order frequency
- Boost sales

Working with Credit Key means you'll be able to provide customers with better financing options and more cost-effective terms than credit cards.

Credit Key integrates seamlessly into your order management software or eCommerce platform and approves buyers in real-time right from their cart.

To set up a demo or learn more visit: https://www.creditkey.com

Credit Key Results:

Increase in AOV

Increase in Order Frequency

Increase in Sales