FORRESTER

Drive Commercial Card Growth With Custom Interchange

Empower The B2B Payment Ecosystem With A Value-Centric Approach

A FORRESTER CONSULTING THOUGHT LEADERSHIP PAPER COMMISSIONED BY VISA, SEPTEMBER 2024

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ABOUT FORRESTER CONSULTING

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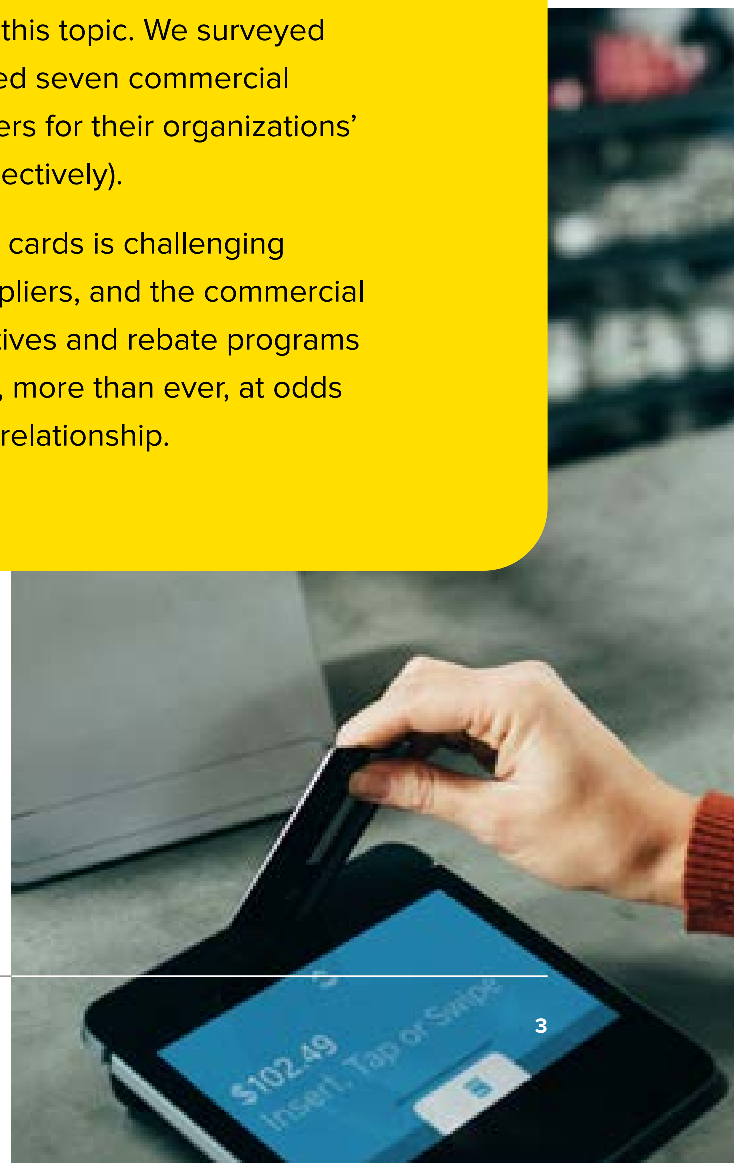
Executive Summary

B2B payment behaviors and the economics that underpin them are experiencing a seismic shift. Commercial card use is growing in popularity among B2B buyers, while suppliers are demanding lower processing fees, greater process efficiency, and faster speed of pay to participate in fee-based payment schemes. Financial institutions now find themselves in the crosshairs between buyers and suppliers as they rely on rich incentives to attract buyers, which often spurns suppliers at the same time. The result? A strained multiparty relationship that has all participants seeking something better.

Visa commissioned Forrester Consulting to evaluate the state of commercial card use from the perspective of B2B buyers, B2B suppliers, and financial institutions that issue commercial cards on behalf of payment networks (See Appendix B for more details). The study's objective was to understand the chasm between these stakeholders and how — or if — custom interchange programs are being used to close this gap. Forrester conducted two online surveys as well as qualitative interviews to explore this topic. We surveyed 334 B2B buyers, 329 B2B suppliers, and interviewed seven commercial credit card issuers, all of whom were decision-makers for their organizations' commercial card use, acceptance, or strategy (respectively).

We found that the growing demand for commercial cards is challenging existing relationships among B2B buyers, their suppliers, and the commercial card issuers sitting between them. Monetary incentives and rebate programs that have attracted B2B buyers in the past are now, more than ever, at odds with suppliers seeking a more equitable economic relationship.



Key Findings

B2B buyers and suppliers believe commercial cards offer unique value that other payment rails don't. Both B2B buyers and B2B suppliers recognize the tangible benefits they receive from using and accepting commercial cards. For buyers, benefits beyond rebates include greater security, payment predictability, and working capital. For suppliers, benefits include fraud protection, reduced credit collection costs, and cash acceleration (i.e., improved days sales outstanding [DSO]). These benefits make cards increasingly attractive for both parties.

Commercial card costs can't be overlooked. Suppliers are burdened with commercial credit card fees; as a result, some refuse to accept cards altogether. In fact, 68% of supplier respondents not currently accepting commercial cards cited high fees as the primary barrier. These fees prevent both B2B buyers and suppliers from realizing the full benefits of commercial card programs offer.

Increased interest in and satisfaction with commercial cards is within reach for all parties. Suppliers want lower processing fees, more automation, and faster speed of pay. At the same time, buyers want to put more spend on their commercial card programs to exploit the broader benefits cards offer, such as buying power, process efficiency, and improved cash flow (i.e., extended days payable outstanding [DPO]). Issuers can fortify their position as enablers of B2B commerce by modifying their approach to offer a more mutually beneficial outcome.

Commercial Cards Offer Strategic Value To B2B Buyers And Suppliers

Commercial cards have emerged as a strategic tool for B2B buyers and suppliers alike, offering a range of benefits that can significantly enhance business operations and financial performance.

THE VALUE FOR B2B BUYERS

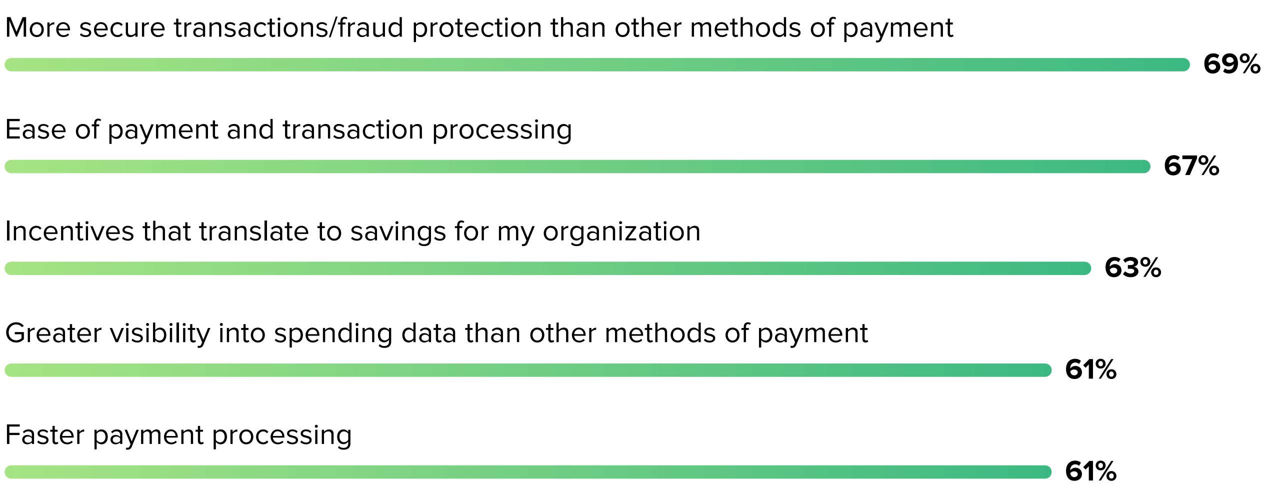
Commercial cards offer an important payment rail for buying organizations: Two-thirds of B2B buyers in our study reported that commercial cards were an approved or the primary mode of payment for supplier invoices. Our study of commercial card B2B buyers found that:

- **Recent market dynamics have increased the need for working capital, driving commercial card interest.** Prior to the global pandemic, inflation and interest rates were at an all-time low. This resulted in low-interest loans/credit that changed the buyer-supplier payment calculus and the need for working capital solutions to manage cash flow. Today, B2B buyers are being impacted by higher interest rates, more expensive credit, and stricter borrowing conditions, making solutions that offer greater working capital benefits more appealing. Commercial cards can optimize working capital by extending the DPO; the payments act as a form of short-term lending and help maximize the available cash during the billing cycle, thus making cards an attractive modality for B2B buyers. Nearly 50% of the B2B buyers we surveyed said they use commercial cards because of the higher DPO it offers compared with other payment methods, and they expected improved cash flow as a result. This benefit was particularly appealing to the respondents at smaller organizations (those with fewer than 5,000 employees). They were also more likely than larger enterprises (those with more than 20,000 employees) to rank cash flow management — another working capital benefit — as important when it comes to commercial card use.

- **Commercial cards offer other business benefits as well.** Beyond their desire for greater working capital, organizations adopt commercial cards to drive more value for their business (as well as for their suppliers). This includes making easier, faster, and more secure payments, providing greater visibility over spending, and creating more efficient accounts payable (AP) processes. Nearly 70% of B2B buyers reported that their organization uses commercial cards to pay third-party suppliers because they offer more secure transactions and fraud protection than other payment methods. Two-thirds stated that ease of payment and transaction processing is a primary reason for card use; 63% cited incentives. The other top use cases included greater visibility into spending data than with other payment methods (61%) and faster payment processing (61%) (see Figure 1). Many of the reasons for B2B commercial card use were reflected in B2B buyers' top five most important features: Two-thirds or more of respondents ranked fraud prevention, interest rates/fees, spend tracking and reporting, incentives, and cash flow management as critical offerings.

FIGURE 1

"What are the primary reasons your organization uses commercial cards to pay third-party suppliers/vendors?"



Base: 334 US-based director-level or above decision-makers involved in selecting or managing the products, systems, and/or channels used to pay third-party vendors/suppliers for goods and services
Note: The top five responses are shown.
Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, September 2023

The growing trend to prioritize working capital signifies a paradigm shift from previous decades when rebates held allure for corporate cardholders.[1] Many B2B buyers will continue to rely on cards for their planned growth and cash flow needs over the next year. The working capital and business benefits that commercial cards offer are effective at winning over B2B buyers.

THE VALUE FOR B2B SUPPLIERS

According to a recent Forrester Consulting Total Economic Impact study, the benefits for suppliers typically fall into four categories:[2]

- **Increased gross revenue.** This done by attracting new customers, protecting existing revenue from competition, and potentially increasing sales to existing customers.
- **Improved debt collection.** Almost 100% of purchases made with commercial cards avoid being past due.
- **Reduced days sales outstanding (DSO).** The typical DSO ranges from 30 to 60 days for non-card payment methods; commercial cards offer an opportunity to reduce that to between five and 15 days.
- **Process efficiencies.** Benefits like reduced invoice exception handling, improved reconciliation processes, and faster onboarding of new customers allow suppliers to lower costs.

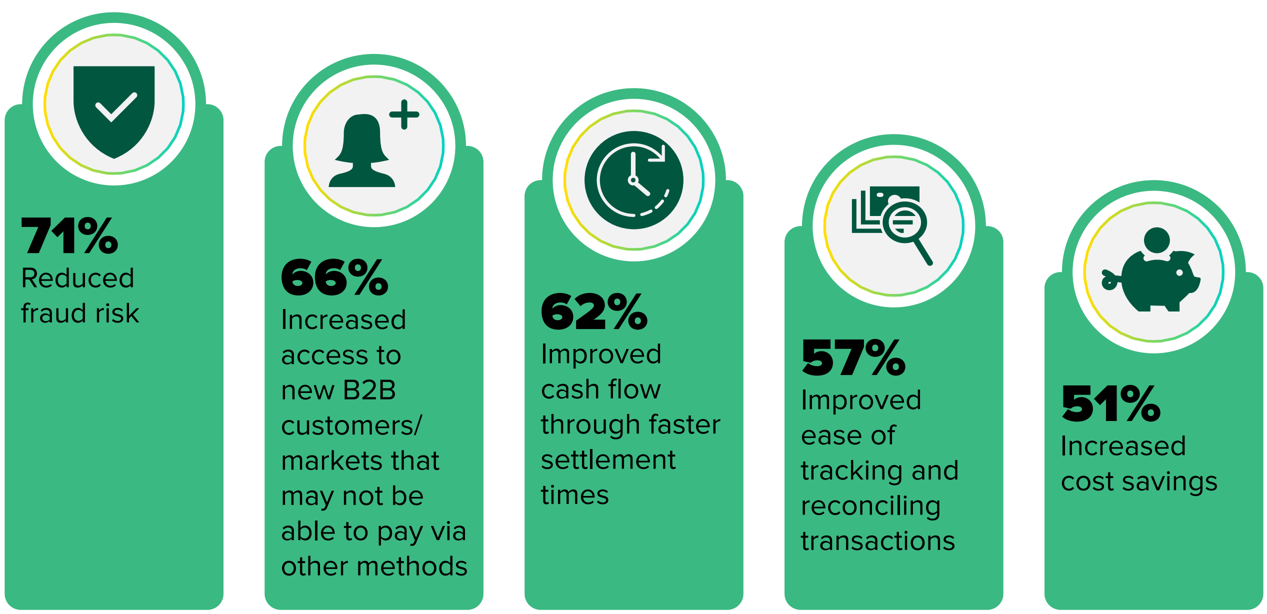
The impact on DSO (i.e., cash acceleration) was an important consideration for supplier respondents with $5 billion or less in revenue and fewer than 5,000 employees when determining whether to accept commercial cards for B2B transactions. Process automation and processing fee amounts were key for respondents at organizations with less than 20,000 employees, while cost transparency was critical for those at organizations with more than 20,000 employees.

In addition, more than 70% of supplier respondents reported that they have reduced fraud risk by accepting commercial cards for B2B transactions; 66% stated that they have increased access to new B2B customers and/or markets that may not be able to pay via other methods. Sixty-two percent said they have improved cash flow through faster settlement times (see Figure 2). While these benefits are impressive, suppliers felt there were additional opportunities for their organizations to recognize value from card acceptance. For example, nearly half of supplier respondents believed it's important for commercial cards to provide increased sales/average transaction value per purchase, while roughly a quarter sought increased brand awareness among B2B customers due to greater card acceptance.

FIGURE 2

"Which of these business benefits has your organization recognized by accepting commercial cards for B2B transactions?"

(Showing recognize this benefit on a regular basis/all the time)



Base: 298 US-based director-level or above decision-makers involved in selecting or managing the payment operations for B2B customers
Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, September 2023

The Real And Perceived Cost Of Acceptance Holds Back Suppliers

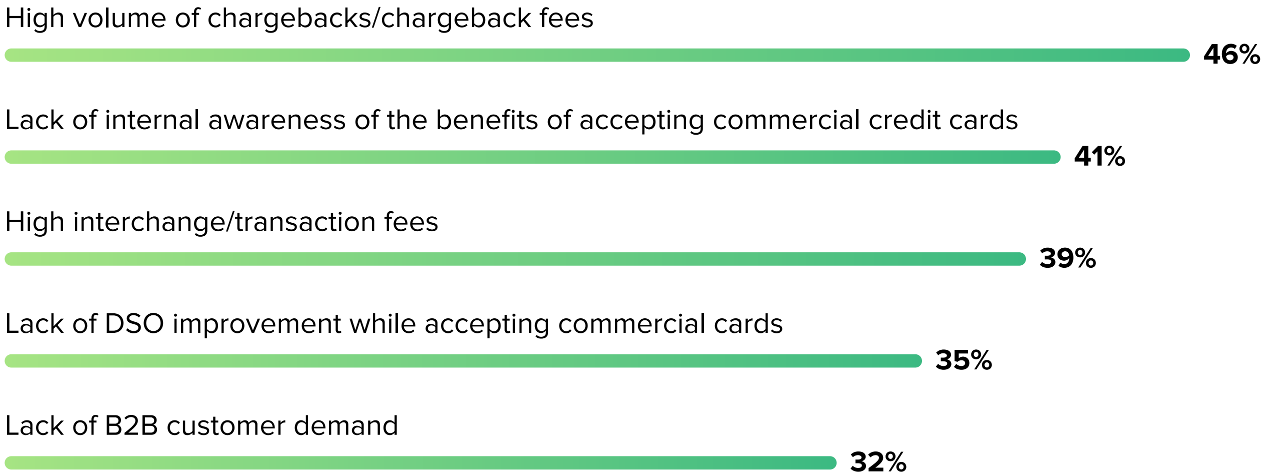
Card network transaction fees (i.e., interchange fees) have long been necessary but expensive for suppliers.[3] Suppliers are exposed to fees for commercial card transactions that other payment methods like cash, ACH, or check don't have. Processing fees run between 1.5% and 3.5%, on average.[4] Suppliers also face internal and external costs associated with initially setting up an organization to accept card payments. These costs have led some suppliers to accept commercial cards selectively and/or to charge buyers a fee for card payments. While the vast majority of the supplier respondents we surveyed accepted commercial cards, only 17% reported that it was the primary mode of customer payment.

HIGH FEES AND LACK OF AWARENESS OF BENEFITS RESTRICT SUPPLIERS' APPETITE TO ACCEPT COMMERCIAL CARDS

Sixty-eight percent of supplier respondents that aren't currently accepting commercial cards cited high fees as the primary barrier. Forty-six percent of suppliers that do accept commercial cards reported that the high volume of chargebacks and chargeback fees limits their ability or desire to expand acceptance for B2B transactions, while 39% stated that high interchange/transaction fees curbed broader acceptance (see Figure 3). In addition to fees, 41% cited a lack of internal awareness of the benefits of accepting commercial cards and 31% pointed to concerns over the costs associated with the manual processing of card payments as roadblocks. Selective acceptance and defaulting to card acceptance only after trying other methods, particularly in instances of aged debt, have only added to the common perception that commercial cards are the most expensive method of payment that suppliers can use to collect on invoices.

FIGURE 3

"What factors limit your organization's ability or desire to accept commercial cards for B2B transactions more broadly?"



Base: 298 US-based director-level or above involved in selecting or managing the payment operations for B2B customers and 31 decision-makers at organizations that don't accept commercial cards
Note: The top five responses are shown.
Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, September 2023

Respondents at suppliers with 20,000 or more employees cited high manual costs as a limiting factor for their company when it comes to accepting commercial cards for B2B transactions more broadly. Respondents from midsize suppliers (5,000 to 19,999 employees) were more limited by complex and lengthy onboarding processes and a lack of internal awareness of the benefits of accepting commercial credit cards. Regardless of size, these supplier perceptions demonstrate the need for commercial card issuers to change the narrative of their card offerings from fee-based to value-centric. Focusing messaging on these attributes provides insights on the value-added benefits that commercial cards offer as a payment modality.

Despite the fees associated with commercial cards, suppliers receive significant value from them; when used correctly, the value can outweigh the costs. However, based on the circumstances of each buyer/supplier relationship, the value may be different. In cases where the cost exceeds the value it delivers, there's a need to adjust the costs to reflect an appropriate value.

Empower The B2B Payment Ecosystem With A Value-Centric Approach

B2B payment trends are evolving rapidly. Battlelines are being redrawn: If the past decade was all about consumers and mobile payments, the next will belong to businesses. Forrester predicts that friction-busting solutions that automate B2B payments, offer greater insight, or open up access to new customer segments will thrive in the future.[5] Card issuers must lean into these changing dynamics and capitalize on B2B buyer and supplier demands for better commercial card experiences and offer more equitable relationships through custom interchanges.

STRIKING THE RIGHT BALANCE BETWEEN COST AND VALUE THROUGH CUSTOM INTERCHANGE PROGRAMS

Custom interchange programs are important tools that allow the ecosystem to adjust commercial card costs relative to their value. They offer a flexible rate structure with interchange rate fees tiered based on purchase value. Our study found that:

- **Most B2B buyers and many suppliers wanted to increase commercial card acceptance/usage and saw custom agreements as a way to do so.** Seventy-two percent of respondents at suppliers said they would expand their acceptance of commercial cards for value-based interchange fees. Sixty-four percent would expand usage if they had the ability to negotiate payment terms directly with B2B customers; and 59% would expand usage if they had more control over interchange fees (see Figure 4). Most of the B2B buyers we surveyed said they would expand their commercial card use if issuers offered more flexible payment terms and better system integration; the latter was particularly important to respondents

> **62%**
>
> of B2B buyers would be willing to forgo receiving incentives if they were able to use their commercial cards with more of their suppliers.

FIGURE 4

"Please indicate the extent to which you agree or disagree with the following statements as they relate to your organization's acceptance of commercial cards for B2B transactions."

(Responses of agree or strongly agree)

72%

My organization would expand its acceptance of commercial cards if interchange fees were value-based, i.e., fees based on transaction size

64%

My organization would expand its acceptance of commercial cards if it was able to negotiate payment terms directly with B2B customers

59%

My organization would expand its acceptance of commercial cards if it had more control over interchange fees

Base: 258 US-based director-level or above decision-makers involved in selecting or managing the payment operations for B2B customers, that accept commercial cards, and that are familiar with flexible interchange programs
Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, September 2023

at organizations with 5,000 to 19,999 employees and companies with less than $1 billion in revenue. Sixty-two percent would be willing to forgo receiving incentives if they could use their commercial cards with more of their suppliers. Respondents at midsize and smaller organizations (less than 20,000 employees) expected additional commercial card use would lead to other tangible business benefits, such as improved regulatory compliance and reduced administrative and/or operating costs.

- **Suppliers showed growing interest in participating in custom interchange programs.** Roughly one-quarter of respondents at suppliers currently participate in a custom interchange program. Respondents from enterprises with more than $5 billion in revenue were more familiar with custom interchange programs than those at organizations with lower annual revenue. Unsurprisingly, this translates into higher participation: 85% of respondents at these large enterprises were assessing a program or planned to get involved in one. And for good reason: Nearly 90% of respondents at participating suppliers were satisfied with the custom interchange program(s) their organization participates in. These programs provide payment processing control — this was most important to respondents from organizations with $5 billion or less in revenue and fewer than 5,000 employees — as well as ease, efficiency, greater cash flow, improved profit margins, and other benefits like overall cost savings.

Nearly 90%

of supplier respondents were satisfied with the custom interchange program(s) they participate in.

- **Card issuers also recognized the upside of custom interchange programs.** Respondents at issuers believed that custom interchange programs can help increase suppliers' acceptance of commercial cards. Custom interchange programs can also improve transaction transparency, efficiency, fairness, and customer satisfaction. According to issuers, the core traits of a successful custom interchange program include 1) transparency — suppliers and buyers should have clear and concise information about the interchange fees that they are being charged; 2) efficiency — the process of setting up and managing a custom interchange solution should be easy and streamlined; 3) fairness — interchange fees should be fair and equitable for all parties involved, and some issuer respondents believed they need better rates to be competitive; 4) adaptability — a custom interchange solution should accommodate the needs of businesses of all sizes; and 5) advanced technology — these solutions should rely on sophisticated technology to track transactions and calculate interchange rates.

Commercial cards offer promising value to both B2B buyers and suppliers beyond being just another payment modality or the incentives they offer. Commercial cards offer peace of mind, empowerment, and business insights that are harder to obtain through other payment methods. B2B buyers and suppliers alike want to grow their relationships with commercial cards, but they can't do this if the costs and benefits aren't balanced. Custom interchange programs are an effective way to provide the right balance and unlock the value commercial cards provide. Issuers that bring this value to life will be in a better position to win over B2B buyers and suppliers that seek better deals.

Key Recommendations

Today's competitive payments landscape necessitates a more mutually beneficial relationship and value exchange among issuers, buyers, and their suppliers. However, high rates and fees limit usage and acceptance. It is important to establish customizable rate structures between issuers and suppliers to grow acceptance and unleash the full potential of commercial card value-added services for B2B buyers. These will more evenly distribute the value of commercial card programs and offer terms that are amendable to all parties so that everyone benefits.

Forrester's in-depth surveys of commercial card issuers and B2B buyers and suppliers about growing commercial card usage and acceptance yielded several important recommendations:

Take advantage of upcoming B2B payments innovation.

Traditional approaches to commercial cards in B2B commerce are unsustainable in a future of relentless payments innovation. B2B, rather than consumer, use cases will be the battleground for payments innovation in the next decade. As such, issuers must focus on broader card benefits to grow buyers' card usage. Traditional rebate programs work for buyers, but they've woken up to broader benefits like the working capital of card payments for B2B commerce. Value levers like increased cash flow improvement, process efficiency, and buying power are also driving buyer interest. For these reasons, buyers are increasing their card usage, even if it means forgoing traditional rebates.

Commercial card issuers must appeal to both buyers and suppliers.

Issuers must adjust their proposed value for both suppliers and buyers if they are to mend today's friction-rich relationships in the B2B commercial card ecosystem. Rich buyer incentives and expensive rewards will continue to impede supplier acceptance. Issuers should rethink buyer value propositions to improve satisfaction for all. Reducing rebates enables suppliers to lower rates and creates greater supplier acceptance.

Use custom interchanges to foster supplier acceptance and promote greater card usage among buyers.

Suppliers' satisfaction with custom interchange systems is strong; they're likely to embrace custom interchange options. Custom interchange programs impact buyers and require certain behavioral and financial changes. Buyers need to pay suppliers on time and on agreed terms to meet their DSO commitments. The change in interchange rates also impacts the rebates that buyers may receive from issuers. Buyers are willing to accept these terms and commitments because they value automation, working capital, fraud prevention, and the other benefits of using commercial cards. On the journey to grow supplier acceptance, issuers should introduce programs in industry sectors where they have little to no penetration with historically resistant supplier industries.

Appendix A: Methodology

In this study, Forrester conducted two online surveys and qualitative interviews with commercial card decision-makers at organizations in the United States to evaluate the state of commercial card use from the perspective of B2B buyers, B2B suppliers, and issuers. Survey participants included decision-makers in selecting or managing the products, systems, and/or channels used to pay third-party vendors/suppliers for goods and services; decision-makers involved in selecting or managing the payment operations for B2B customers; and decision-makers involved in developing, approving, and/or managing commercial credit card programs at their organization. Questions provided to the participants asked about their current strategies, challenges, and goals in this space. Respondents were offered a small incentive as a thank-you for time spent on the survey. The study began in September 2023 and was completed in October 2023.

Appendix B: Glossary Of Terms

Payment network: A payment network (also known as a payment scheme) refers to a system that allows the transfer of funds between individuals or businesses. It involves various entities, such as banks, financial institutions, and payment processors. Examples of payment networks include credit card networks. These networks facilitate transactions by transmitting data between parties, authorizing transactions, and ensuring secure and efficient payment processing.

Interchange fee: An interchange fee is a charge that the supplier's bank account must pay whenever a customer uses a credit or debit card to make a purchase from their business. This fee is paid to the card-issuing bank to cover handling costs, fraud and bad debt costs, and the risk involved in approving the payment. The exact amount of the interchange fee can vary depending on a variety of factors, including the type of card used (e.g., credit, debit, rewards), the type of transaction (e.g., in-person, online), and the type of business.

B2B buyer: A business-to-business (B2B) buyer is a business entity that purchases products or services from another business entity. Unlike business-to-consumer (B2C) buyers who are individual consumers, B2B buyers can be companies, organizations, or government agencies. B2B buyers typically make purchases for operational needs, resale, or incorporation into their own products or services. The decision-making process for B2B buyers is often more complex and involves more stakeholders compared to B2C buyers.

B2B supplier: A B2B supplier is a company that sells goods or services to other businesses. B2B suppliers play a vital role in the global economy, providing the products and services that businesses need to operate and grow. They can be manufacturers, distributors, wholesalers, or service providers.

Commercial card issuer: A commercial credit card issuer is a financial institution that provides credit cards to businesses. These cards are designed to help businesses manage their cash flow, make purchases, and build credit.

Appendix C: Demographics/Data

Buyers

RESPONSIBILITY	
I influence decisions related to my organization’s strategy in this area	**44%**
I am part of a team making decisions for my organization	**38%**
I am the final decision-maker for my organization	**18%**

INDUSTRIES (TOP FIVE)	
Healthcare	**8%**
Financial services and/or insurance	**7%**
Construction	**7%**
Government	**7%**
Retail	**7%**

COMPANY REVENUE	
>$5 billion	**59%**
$1 billion to $5 billion	**21%**
$500 million to $999 million (15%)	**15%**
$400 million to $499 million (3%)	**3%**
$300 million to $399 million	**1%**
$200 million to $299 million	**1%**

DEPARTMENT	
Sourcing/procurement/purchasing	**19%**
Operations	**19%**
Materials/inventory management	**17%**
Service management	**16%**
Finance/accounting	**15%**
Product management	**15%**

COMPANY SIZE	
20,000 or more	**28%**
5,000 to 19,999	**30%**
1,000 to 4,999	**32%**
500 to 999	**6%**
100 to 499	**4%**

TITLE	
C-level and vice president	**58%**
Director (manages a team of managers and high-level contributors)	**42%**

Note: Percentages may not total 100 due to rounding.

Suppliers

CUSTOMER TYPE	
Business	**31%**
Both consumers and businesses	**69%**

INDUSTRIES (TOP FIVE)	
Retail	**9%**
Manufacturing and materials	**8%**
Transportation and logistics	**7%**
Construction	**6%**
Financial services and/or insurance	**6%**

COMPANY REVENUE	
>$5 billion	**68%**
$1 billion to $5 billion	**20%**
$500 million to $999 million	**12%**

DEPARTMENT	
Credit management	**26%**
Procurement	**26%**
Accounts receivable	**24%**
Finance/treasury	**23%**

COMPANY SIZE	
20,000 or more	**33%**
5,000 to 19,999	**32%**
1,000 to 4,999	**36%**

TITLE	
C-level and vice president	**61%**
Director (manages a team of managers and high-level contributors)	**39%**

Note: Percentages may not total 100 due to rounding.

Issuers

COMPANY REVENUE	
>$50B	**29%**
$1B to $50B	**57%**
<$1B	**14%**

COMPANY SIZE	
50,000 or more	**57%**
5,000 to 49,999	**14%**
1,000 to 4,999	**29%**

TITLE	
Vice president	**43%**
Director (manages a team of managers and high-level contributors)	**57%**

Note: Percentages may not total 100 due to rounding.

Appendix D: Supplemental Material

RELATED FORRESTER RESEARCH

Predictions 2024: Payments, Forrester Research, Inc., October 30, 2023

Predictions 2023: Payments, Forrester Research, Inc., October 31, 2022

Merchants Want More From Their Payment Providers, Forrester Research, Inc., June 6, 2022

The Future Of Payments, Forrester Research, Inc., February 1, 2022

ADDITIONAL RESOURCES

Predictions 2024: Payments Webinar, Forrester Research, Inc., December 6, 2023

Appendix E: Endnotes

[1] Commercial Cards Evolve as Working Capital Takes Precedence, PYMNTS, January 9, 2024.

[2] The Total Economic Impact™ Of Commercial Credit Card Acceptance, Forrester Consulting, 2021 (updated March 2024).

[3] Predictions 2023: Payments, Forrester Research, Inc. October 31, 2022.

[4] Credit Card Processing Fees (2024 Guide), Forbes Advisor, January 29, 2024.

[5] The Future Of Payments, Forrester Research, Inc., February 1, 2022.

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