A First Data White Paper

Digitalising B2B Payments to Streamline Supply Chains in Asia
Introduction

The potential for commercial cards to transform business to business (B2B) commercial transactions is an opportunity for innovative payment technology to boost business productivity, reduce costs, and strengthen commercial partnerships across Asia’s supply chain.

The Internet and associated technologies such as enterprise resource planning (ERP) systems have become essential infrastructure that businesses rely on to move information seamlessly and securely between head office and subsidiaries, customers and suppliers. Such software powers supply chains and enables sales and commercial transactions between vendors and suppliers. Most multinational companies use IT solutions including web-enabled ERP and advanced planning and optimiser (APO) systems to capture internal data, and streamline information flow in their supply chains. Yet so far, few companies are using technology to automate B2B payments to drive efficiency and reduce costs. With the rapid growth of e-commerce, electronic payments are expected to rise, particularly in Asia’s growth-engine economies. Celent, a research and consulting firm focused on the application of information technology in the global financial services industry, estimates that B2B electronic payments in China reached US $47 billion in 2013. By 2015, Celent estimates China’s B2B electronic transactions will reach US $140 billion and B2B e-commerce will be US $1.4 trillion.¹

Globally, overall electronic payments accelerated 8.8% in 2011 to reach 307 billion transactions.

Mature markets within Asia Pacific, with a global market share of 9.8%, recorded the strongest growth with transaction volumes increasing by 11%.²

Yet, while mature markets accounted for 77% of all global electronic payments, emerging markets in Asia (including India, China, Singapore and Hong Kong) had the highest growth rates, increasing by 22.1% during 2011, representing 6.5% of the global market.³

However, despite all the advantages of automated electronic payments, few companies are utilising digital payment solutions to automate invoicing and payments to drive efficiency throughout the supply chain.

The reason for the slow uptake of electronic payments is difficult to pinpoint, however it is partly attributed to the perceived complexity of migrating so many supplier relationships from paper to electronic systems.⁴

As Asia’s growing economies grapple with improving productivity, various emerging technologies are helping to increase business competitiveness throughout the region.⁵ What if multinational companies in the area could leverage the latest payment technologies to reduce the risk of fraud, cut transaction costs, free up cashflow and improve productivity? What kind of impact could this make across the supply chain?

¹ http://www.celent.com/reports/b2b-payments-china-skys-limit
² Capgemini and Royal Bank of Scotland, World Payments Report 2013, p6
³ Ibid
⁴ Bank of America Merrill Lynch Moving from Paper to Electronic, white paper April 2013, p5.
⁵ AT&T and INSEAD http://www.insead.edu/media_relations/press_release/2013_ATT-INSEAD-productivity-report.cfm
This paper discusses how today’s most innovative multinational companies are leveraging B2B commercial cards to overcome a number of key challenges to drive efficiencies for vendors and suppliers across Asia’s supply chain.

Drivers behind the supply chain in ASEAN
Since 2008, when the global financial crisis impacted developed economies, Asia has been the leading region fuelling global economic growth. Between 2000 to 2013, the largest economies of the Asia region, China and India, experienced real GDP growth of 10% and 7% respectively, which was well above that of the US (1.8%) and United Kingdom (1.5%) during the same period.\(^6\)

But, China and India are not the only economies to experience surging growth. Driven by the growing purchasing power of the rising middle classes, major economic transformation is underway across Southeast Asia’s emerging economies, which make up the Association of Southeast Asian Nations (ASEAN).

If ASEAN were a single nation, it would be home to 600 million people and the seventh largest economy in the world, with combined GDP of US $2.4 trillion. By 2050, ASEAN is projected to be the world’s fourth largest economy.\(^7\)

ASEAN’s growth in GDP per capita has outpaced the rest of the world since the 1970s. With average annual real gains of more than 5%, income growth has been strong since 2000. Already there are 67 million consuming households. By 2025, this number is expected to more than double to 125 million.\(^8\)

Servicing the growing consumption demands of this rising middle class requires the manufacture, distribution and sale of a vast array of goods and services. In 2013, Asia Pacific led global retail demand growth, with retail sales growth forecast to grow by 6%. By 2016, Asia Pacific retail sales are projected to be worth US $11.8 trillion.\(^9\)

Asian consumers continue to demand household staples ranging from food and pharmaceuticals to home-wares and electrical. Producing and distributing these consumer goods are large multinationals as well as home-grown domestic companies. But, getting goods to market requires an efficient supply chain, strong commercial relationships, and timely and secure commercial transactions.

Managing Asia’s complex regional supply chains are international logistics companies, which support global customers by transporting raw ingredients for manufacture, as well as managing the packaging and just-in-time distribution of finished goods to consumer markets across the region.\(^10\)

According to the International Monetary Fund (IMF), trade across the Asian supply chain is continuing to grow with a projected trade volume increase in excess of 9% annually until 2016.\(^11\) ASEAN itself is the fourth largest exporting region in the world, accounting for 7% of global exports as member nations have developed more sophisticated manufacturing capabilities.\(^12\)

A significant amount of global trade that comes through the ASEAN region flows through Singapore,
which operates the world’s second busiest port in terms of cargo tonnage.\textsuperscript{13} Singapore is also home to more than 8,000 multinational companies,\textsuperscript{14} which base their Asia Pacific headquarters in Singapore to produce goods and services for Asia’s growing economies. Serving as a regional hub for shipping, logistics and transport, Singapore is a key connection in the supply chain.

Many companies across ASEAN are also linked together across a complex supply chain, producing and delivering goods to market. Yet, despite the sophistication of the regional supply chain, cash economies in Asia remain strong.\textsuperscript{15} This means transaction times are slow due to manual administration of invoices and payments, which greatly impacts the supplier’s cash flow and overall responsiveness to business demands.

Major corporations that manage complex regional supply chains across the region with multiple suppliers have the opportunity to reduce costs, improve payment security, and improve enterprise resource planning, with the added control and flexibility that commercial payment cards can provide.

**Commercial payments in the supply chain**
Overall, electronic payments are rising across the Asia Pacific. By 2015, electronic payments in the region are expected to account for 83% of monetary flows, up from 64% in 2010. This is the equivalent of an average annual growth rate of more than 20% across Thailand.

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\textsuperscript{13} Ministry of Transport speech, 2013 SeaAsia Conference
\textsuperscript{14} http://www.global-briefing.org/2013/08/trading-up-south-east-asias-economic-miracle/
\textsuperscript{15} McKinsey Global Payments Map
Indonesia, China and India, yet slower growth (5 – 10%) is expected in the more mature markets of South Korea, Japan and Australia.\textsuperscript{16}

Already, commercial transactions between businesses are growing, according to McKinsey & Company, a global management consulting firm. Global commercial spend surpassed US$109 trillion in 2011,\textsuperscript{17} growing 12% in 12 months. And, according to Visa, the Asia Pacific region recorded the largest share of commercial spend (US $38 trillion) and the third strongest growth rate, rising 14.9% compared to 2010. These figures reflect the strength of Asia Pacific’s commercial momentum.

In Singapore, commercial cards are increasingly being used for both day-to-day purchases and more strategic procurement, with increased control and reporting options driving the adoption.\textsuperscript{18}

Commercial card spend grew steadily in 2012 to SG $3.38 billion and was forecast to rise by a further 6.7% to $3.61 billion in 2013.\textsuperscript{19}

\textsuperscript{16}Insight from McKinsey’s Asia-Pacific Payments Map
\textsuperscript{17}According to Mercator Advisory Group
\textsuperscript{18}Visa Commercial Consumption Expenditure (CCE) Index 2011
\textsuperscript{19}Card Community, Global Commercial Cards Updated: 2013, p39
\textsuperscript{19}Ibid, p41
The number of commercial cards held by Singaporean businesses was expected to rise by 5.1% between 2012 and 2013, with an estimated 257,897 cards held by Singaporean businesses last year.20

As commercial spend grows, commercial card purchase volumes have also risen, according to Mercator Advisory Group. Commercial payment card spend grew 15% (compound annual growth rate) between 2008 and 2012 to $559 billion.21 In China, payment cards processed approximately US $47 billion transactions in 2013, compared to about US $20 billion transactions in 2008.

How commercial cards are currently used in Asia Pacific

Businesses have typically used commercial cards for employee travel and entertainment, and for relatively small purchases like office supplies.22 Rarely have payment cards been used for high-value purchases, but that is beginning to change. With the introduction of e-invoicing and B2B payment solutions, commercial payment cards are helping to simplify and secure payments throughout the entire supply chain.

However, automation of invoicing (electronic invoicing) and electronic payments are growing slowly. Most companies still rely on paper invoicing according to a global survey by PayStream Advisors Inc.,23 which found that only 16% of accounts payable departments receive the majority of invoices electronically, while 60% of respondents continue to receive 90% of their invoices the old fashioned way, on paper. Yet, globally, survey respondents said electronic invoicing was their number one priority with 30% saying it was their top automation goal for 2013. Electronic payments ranked second (22%) and purchasing cards ranked third (20%). These findings show that the demand for electronic payment solutions is growing.

While companies traditionally like to retain control and security over trade letters of credit, with paper cheques and manual processing, they are starting to realise that the administration required for paper payments could be applied more efficiently and with less manual handling.

20 Ibid.
21 According to Mercator Advisory Group
22 First Data White Paper, The Corporate Purchase Card, Catalyst for new growth in B2B eCommerce
Celent estimates\textsuperscript{24} that approximately four billion transactions currently paid by cheque will move to electronic payment within the next five years.

Despite the name, commercial cards are far more than a credit card; they are a whole payment technology solution. These cards give organisations the ability to distribute spending power to their employees, and in some cases, self-collection capability to suppliers, in cooperation with leading card networks.

\textbf{The two most common commercial cards are:}
1. Procurement Cards – Procurement Cards, or P Cards, are one of the most effective tools available to organisational buyers to pay for goods and services procured from an approved list of suppliers. Benefits include:
   - The use of a P Card automates the Procure-to-Pay cycle driving greater process efficiencies and indirect cost savings, versus manual reconciliation of supplier invoices.
   - These savings can be best realised by using P Cards to settle small dollar purchases where the cost of processing each individual invoice is very high when compared to the average dollar cost of each invoice.
   - P Cards offer additional benefits to corporate buyers, including extended cash flow cycles, visibility of spend across suppliers through analytics, and data reporting to drive policy compliance and generate savings through the uptake of preferred rates.
   - For the supplier, acceptance of P Cards drives savings through reduced interest costs of funding a buyer’s credit terms, delayed payments, cost of receivable management and managing risk associated with buyer default.

2. Collection Cards – Also known as Distribution Cards, Collection Cards allow manufacturers and large distributors to collect payments from debtors and streamline their sell-to-collect process. This allows

\begin{quote}
\textbf{Within seven years,}
First Data estimates that only 10% of all B2B transactions will be made by cheque, with the rest made through an Automated Clearing House (ACH) and next-generation purchase cards.\textsuperscript{25}
\end{quote}

\begin{itemize}
\item Suppliers accepting P Cards can also generally see increased buyer loyalty and potentially an uptick in business volume leading to positive revenue growth.
\item Technology has also enabled P Cards to have strong built-in security features to prevent fraud, as their use can be restricted to only buyers and authorised suppliers.
\item In addition, corporate buyers can choose to apply per transaction and overall spend limits to manage the financial exposure on P Cards.
\end{itemize}

The popularity of P Cards for B2B payments is rapidly growing with suppliers across common services including telecoms, couriers, utilities, office supplies and business services. The future growth of P Cards will most likely continue to expand to many new services and increase the uptake of supplier payments using this platform.

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\textsuperscript{24}First Data White Paper, The Corporate Purchase Card, Catalyst for new growth in B2B eCommerce, p3
\textsuperscript{25}First Data White Paper, The Corporate Purchase Card, Catalyst for new growth in B2B eCommerce
them to manage their receivable management costs, cash flow, and risk of giving credit enabling them to grow new business. Some of the benefits of Collection Cards include:

- **Collection Cards offer an effective solution** by driving a much deeper engagement between all parties when transactions between manufacturers and large distributors want to offer solutions and incentives for early payment, or where cash-on-delivery is the preferred option.

- **Collection Cards allow banks to leverage the financial strength of large manufacturers and distributors to approve credit lines that can be allocated across the distribution network.**

- **The debtors who are part of the distribution network are then issued Collection Cards to settle payments owed to the manufacturer or distributor.**

- **A typical example of Collection Card usage is that of a large electronic distributor or manufacturer with an extensive dealer network.** The company agrees to accept payments from their dealers using credit lines which have been underwritten by a bank based on the financial strength of the distributor, with the distributor co-guaranteeing any dealer payment defaults to the bank.

**The technology behind commercial cards**

The payments technology solution enabling B2B commercial payment cards uses several innovations to streamline transactions and improve the security of commercial card payments. Here are some:

- **The purchase or payment can be either buyer initiated or supplier initiated, rather than the previous generations of corporate payment cards.**

- **In a buyer-initiated solution, the buyer initiates both the purchase and payment.** This provides the buyer with similar levels of control, manageability and security as a manual invoice-to-cheque payment, but with greater efficiency.

- **In a supplier-initiated solution, a large supplier can self-collect receivables due from a large pool of downstream buyers and significantly accelerate the Days Sales Outstanding (DSO) while reducing cost of collection.**

- **The buyer’s card number (or account number) is never exposed.** In reality, the account number is not recorded in the vendor or buyer’s accounts payable systems. The account number is held only by the network and payment processor such as First Data Corporation. This feature significantly reduces the likelihood of fraud and makes the system trustworthy for larger purchases.

- **The solution can generate one-time, single-use card numbers with specific merchant-level restrictions enabled, which can also help reduce fraud.** If the card system was ever compromised, the buyer is assured that the account numbers cannot be used outside a certain payment ecosystem.

- **The solution does not require the supplier to provide Direct Deposit Advice (DDA) or other bank account information to the buyer.** All payments are handled within the system by a trusted payment processor such as First Data Corporation.

- **First Data’s payments solution uses B2B industry standard formats, enabling fast integration with corporate ERP system, and thereby ensuring fully automated “touchless” bookkeeping.**

- **The solution supports “enhanced data acquisition” upon payment execution, thereby delivering fully reconciled payment data to corporate buyers and contributing to overall governance and controls.**
Benefits of commercial cards for B2B payments

There are a number of benefits to using commercial cards instead of traditional payment methods. These benefits range from greater resource efficiency in processing payments, to improved security and lower transaction fees.

Lower cost per transaction

First Data expects costs per transaction to gradually come down over time as commercial cards are increasingly adopted. According to Bank of America Merrill Lynch, in the United States the cost to process a traditional purchase order is US $93, compared to US $22 on a commercial card.

To ensure B2B commercial payment cards provide a competitive alternative, First Data expects interchange rates for purchase card transactions to decline from relatively high rates of around 3% to 1% over time.

Better security, fewer fraud risks

A survey by the Association for Financial Professionals in 2011 found organisations that experienced fraud were more likely to be targeted by cheque fraud (85%), than Automated Clearance House fraud (28%) or wire fraud (5%).

Commercial cards, on the other hand, have multiple security controls in place. Since the card account number is retained by the network processor, it is never revealed to the user or vendor, and all transactions are matched to vendors, there is a lower risk of funds being obtained fraudulently.

Better resource planning, efficiency and control

A B2B payments card platform provides more overall control while improving efficiency and lowering transactions costs. By integrating with automated enterprise resource planning and accounts payable/receivable, administration costs are lowered. Commercial cards enable the payment of multiple invoices with one payment.

According to RPMG Research Group purchasing cards reduce the procurement cycle by 12 days, reduce the number of suppliers on average by 16%, and cut down on staff dedicated to accounts payable.

Commercial cards also provide greater transparency into cashflow, and the ability to control payment dates and avoid late-payment penalties, while taking advantage of early payment discounts.

Vendor cashflow

For vendors, commercial cards enable more streamlined administration and greater visibility. For example, merchants can see all their invoice activity through one portal, helping to predict and manage cashflow.

Commercial cards also enable faster payment than manual cheque-based systems, due to automated online processing. This alleviates cashflow pressure and creates greater predictability for vendors as well as suppliers.

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27 First Data White Paper, The Corporate Purchase Card, Catalyst for new growth in B2B
Conclusion
The payments industry is fast evolving, introducing new, innovative technology for commercial B2B payments to go digital, safely and securely. The benefits of commercial electronic payments are enormous. Commercial payment cards in particular provide many business advantages for both suppliers and vendors, ranging from lower transaction costs and greater security to more control and efficiency over payments and resource planning.

While widespread adoption of commercial payment cards is yet to take off in Asia, approximately four billion transactions that are currently paid by cheque are expected to move to electronic payment within the next five years. First Data expects this growth to be even more dramatic over the next 10 years as electronic invoicing becomes commonplace. Underpinning this technology adoption is businesses need to reduce costs and improve efficiencies while catering to Asia’s consuming middle class.

Reference:
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For more information, contact your First Data Consultant or visit firstdata.com