



Empowering suppliers –  
B2B payment gateways  
and commercial card  
payments

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# Optimizing payment gateways for suppliers

The nature of B2B payments has evolved over the past decade. In that time, the accounts receivable (AR) function has transformed to meet these changes, but there are still “historical” processes that need to mature in order to meet the payment landscape. Suppliers need to close the gap that exists between past and present to provide for the future. Suppliers can do so by adapting payment technology to the needs of their customers and accommodate new payment methods. A payment gateway that specializes in B2B payments is a key component of both improving the collection process and preparing for the future.

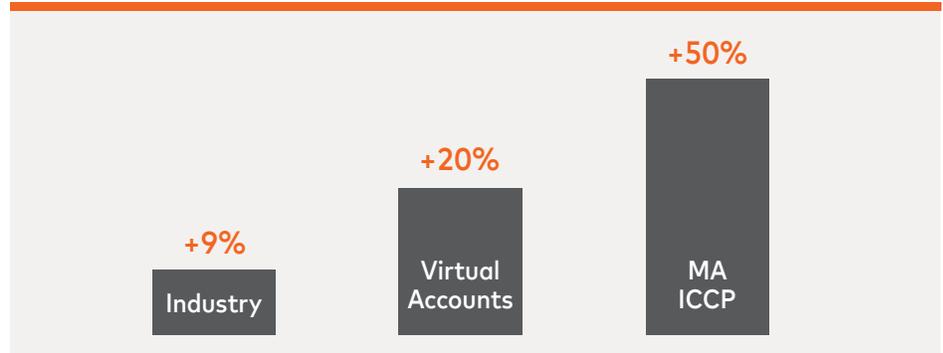


# 50%

growth rate has occurred for Mastercard in Control for Commercial Payments.

## The growth of virtual accounts

The use of commercial cards for payments has been on the rise for over a decade, and it continues to grow at an accelerated rate. Virtual accounts are leading this segment with the automation of the accounts payable (AP) function among buyers.



**Figure:** In terms of overall payments trends, industry or commercial payments card usage is growing at a rate of nine percent overall, which includes prepaid cards, fleet cards, and travel and expense cards. Then, virtual accounts are seeing a 20 percent growth rate for single use. Finally, Mastercard in Control for Commercial Payments, (MA ICCP) is showing an explosive 50 percent growth rate. (Source: Mercator Advisory Group, "U.S. Commercial Cards: The Drive Toward Mainstream Payables," October, 2 2017.)

## AP automation adoption

As customers move to eliminate paper checks and improve working capital through the use of virtual account payments, suppliers should capitalize on the opportunity to invest in technology. This will help to both create a more seamless experience for the customer and improve the efficiency of the card acceptance process. The supplier's investment should focus both the current needs of the business and the future state of payments acceptance.

## The purpose-built gateway: B2B vs. B2C

It's important to note that a B2B payment gateway is different from a consumer-based or e-commerce payment gateway. A B2B gateway is designed to meet the unique needs of business now and well into the future, as virtual account payments continue to increase. A B2B gateway is specifically optimized for businesses with features including interchange optimization, AR integration, and electronic invoice payment enablement.

## The three gateway classes

Suppliers can use a B2B payment gateway to process virtual account payments to make them frictionless and consolidated in one system—and be positioned for future development. For the purposes of evaluating B2B payment gateways, we will define a “class” for the capability levels.

- **A Class 1**, or Optimized, gateway processes Data Rate 3 and large ticket transactions to optimize interchange and reduce costs.
- **A Class 2**, or Integrated, gateway has Class 1 features plus enterprise resource planning (ERP) integration to streamline processes and increase efficiency for suppliers.
- **A Class 3**, or Incorporated, gateway has Class 1 and 2 features plus a customer portal with connected invoicing and payment systems, enhancing the user experience and improving customer service.

## Gateways at a glance

Gateway class	Features	Benefits
 <b>1 Optimized</b>	Processes Data Rate 3 and large ticket transactions	Optimizes interchange to reduce costs
 <b>2 Integrated</b>	Class 1 features, plus ERP integration	Streamlines AR processes to increase efficiency
 <b>3 Incorporated</b>	Class 2 features, plus customer portal with connected invoicing and payment systems	Enhances user experience to improve customer service



Figure: How the three gateway classes stack up.

## Case studies

Companies in any industry can benefit from using an optimized gateway of any class level. Following are three examples of how gateways have helped three real companies, provided by PayTrace, a leading B2B gateway.



In their words: "PayTrace is motivated by the challenge of delighting merchants. We empower sales partners by offering high value technology solutions to businesses."



### Class 1

Optimized acceptance cost for medical services

One merchant in the medical services industry found it was paying high interchange rates, so it implemented a Class 1 gateway, which optimized acceptance costs by supporting Data Rate 3 and large ticket interchange. Over the year following the installation, the new gateway facilitated, processed, and settled over \$226 million in transactions to create an annual savings of over \$2 million on interchange fees, alone.



### Class 2

Integrated for building and construction supplies

A manufacturer and supplier in the building and construction supply industry was using outdated credit card terminals that lacked the latest payment cards industry compliance tools, and it found that payments were poorly integrated into their customer relationship management (CRM) and ERP systems. Consequently, customer payment information would need to be manually entered, which resulted in duplicated efforts, increased costs and a poor customer experience. Upon centralizing and integrating the CRM system, configure price quote (CPQ), and ERP systems with the AR and AP functions, data entry time was reduced by 15 percent, while interchange optimization alone saved the company nearly \$4 million in 2017.



### Class 3

Incorporated for medical devices

A major medical device manufacturer and supplier was having difficulty accepting and managing payment formats from an array of customers, resulting in inefficiency, lost revenue and a poor customer experience. To combat the problem, it needed to integrate a self-service customer payment portal with an electronic invoice presentment and payments (EIPP) cloud solution. When it did so, the company experienced improved customer service as customers were able to review and pay invoices online via a range of payment options, using a secure, electronic payment portal. In addition, the system improved cash flow by 10 percent, reduced AR costs 30 percent and increased savings by \$7 million—all within a one-year period.

# 300

Nearly 300 different payment gateways exist in varying forms of complexity: from a simple e-commerce set-up to a robust multi-class offering.

## Navigating the gateway ecosystem

There are a number of payment gateways that can help a B2B supplier. The Strawhecker Group's (TSG) U.S. Payment Gateway Directory details over 70 leading payments gateways, out of nearly 300, ranging from a simple e-commerce set-up to a robust multi-class offering.

Similarly, there are a number of gateway providers in the payments ecosystem: merchant acquirers, card networks, large technology companies, independent gateways, and POS hardware providers.

It's important for suppliers to find the right B2B gateway solution to optimize their needs and the needs of their customers. Rather than accepting the first solution available, proper research and analysis is important for suppliers. Given the sheer number of solutions available, the technical challenges, and the variations between them, how do you figure out the right solution for your business's unique needs, both now and going forward?

## Can you answer these questions?

### 1. Does your current gateway process Data Rate 3 and large ticket transactions?

If your current gateway cannot process Data Rate 3, you are missing out on the benefits of an optimized interchange and the ability to scale your payments system for the future. One advantage is significantly improved interchange rates.

### 2. Do you maintain a card on file?

By simply maintaining a card on file using a Class 1 Optimized gateway, suppliers reduce risk and increase efficiency within the AR function by protecting and encrypting card numbers, enabling one-time card entry, and reducing the effort to process virtual account payments. In addition, maintaining a card on file drives stickiness with buyers once they are in the system, by removing any barriers to payment.

### 3. How are you managing PCI compliance?

Effective B2B payment gateways can help companies adhere to PCI compliance in a number of key ways. First, using the proper B2B payment gateway will eliminate the retention of virtual account numbers in unsecure formats. Also, it will allow a single, secure storage location for all account numbers with limited access. Most significantly, a Class 3 payment gateway eliminates the transmission of virtual account numbers to the supplier, and retention by the supplier, completely.

### 4. Are your card payments integrated into your accounting system?

With a Class 2 Integrated system, suppliers benefit from a streamlined AR system that integrates with the ERP system, to increase overall enterprise efficiency and show payments in real time.

## 5. Are you producing electronic invoices?

Electronic invoicing has proven to be more efficient in time and resources than paper billing, and significantly reduces the paper and physical record keeping that comes with it.

## 6. Are your customers using an online portal?

More and more, customers expect and prefer to use an online portal for payment. When you're able to offer your customers a portal, such as through a Class Three Incorporated gateway, you provide them with a better customer experience that enhances your business by connecting invoicing and payment systems.

## Take the next step

If you have answered "no" to any of the above questions, Mastercard and The Strawhecker Group can help with a complimentary consultation. As the leading payment acceptance consulting company, TSG is able to provide primary research, in-depth market intelligence, and key expertise in payment gateway technology.

**For a complimentary 1:1 consultation about optimizing your payment gateway, please contact:** Marlon Dungo, Director, B2B Acceptance, Mastercard, Marlon.Dungo@mastercard.com, (914) 249-9164.

## About Mastercard and The Strawhecker Group

Mastercard® is a technology company in the global payments industry. We operate one of the world's fastest payments processing networks, connecting businesses, consumers, financial institutions, merchants, and governments in more than 210 countries and territories. Mastercard products and solutions help make everyday commerce activities—such as traveling, running a business, and managing finances—easier, more secure, and more efficient for everyone.

The Strawhecker Group (TSG) is among the largest, and fastest-growing, independent consulting firms focused on the electronic payments industry. TSG serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. Based in Omaha, a recognized payments industry hub, the firm provides its clients with advisory services, research, and analytics to help them plan and execute their strategic initiatives.

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