Capturing the middle-market opportunity for commercial cards

A practical guide to understanding the opportunity and measuring the ROI of using technology to optimize your card offering for the middle-market

Contents

Introduction

The opportunity in B2B commercial cards is vast.

In 2016, checks accounted for half of all B2B payment volume, but now they make up just one-third. With this momentum, their share is expected to plummet further to around 10% by 2030.

The result? In the coming years, more than $8 trillion will move towards modern, easy-to-use payment methods, like commercial cards.

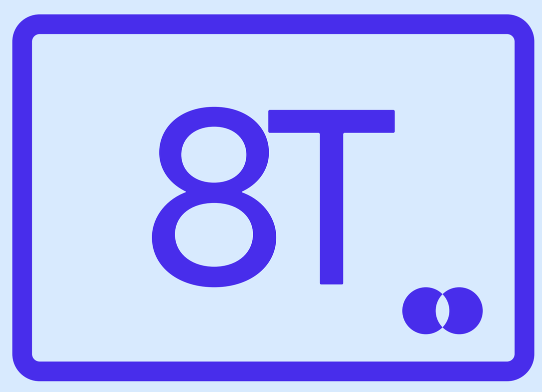
Certain banks will seize this opportunity to aggressively boost non-interest income by scaling their commercial card programs to a broader market. Other institutions will struggle to prioritize the initiative among competing demands and miss out on a significant return on investment.

For those who want to capitalize on the shift, the following playbook will help you showcase the projected returns of investing in B2B commercial card programs and identify the strategic steps required to realize these benefits.

The rise of commercial cards

In 2022, businesses conducted over **$12 trillion** worth of transactions using **checks and cash**.

But checks are expected to make up just **10%** of B2B payment volume by **2030**.



This shift will result in **$8 trillion** moving to modern payment methods like **commercial cards**.

How can banks capitalize on this opportunity?

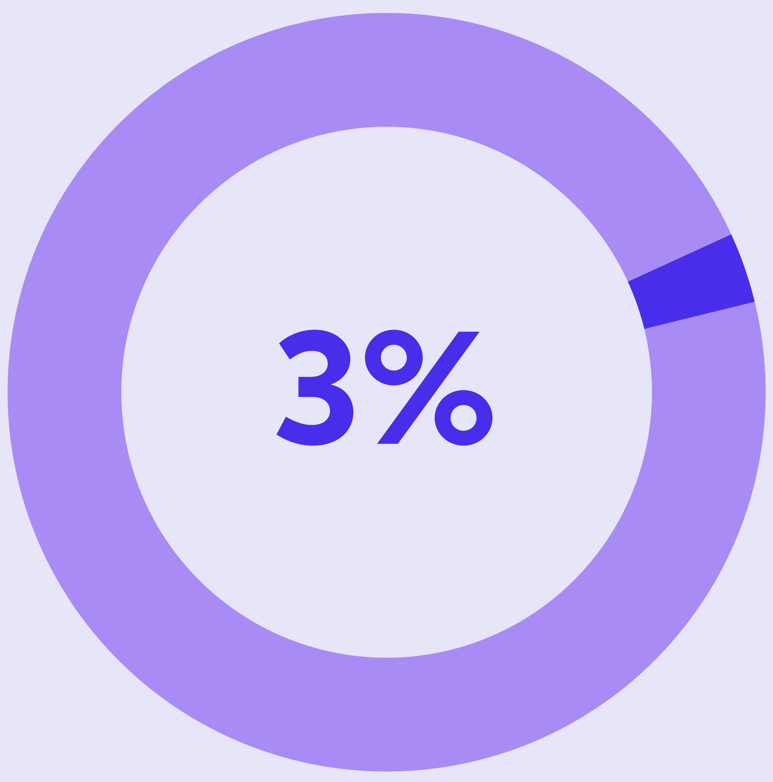
The untapped middle-market

Only 3% of middle-market companies in North America use commercial cards as their primary working capital solution, yet these businesses are experiencing the fastest growth. If banks can successfully expand commercial card programs to the mid-market, they could benefit from a significant increase in B2B card volume.

However, the challenge in serving mid-market businesses is that the same high-touch concierge service required for large corporates is needed to acquire, onboard, and grow the spending of these smaller clients. Unfortunately, this means the returns on a per-client basis rarely justify the costs.

For instance, supplier enablement, which involves onboarding suppliers to accept electronic payments, has been a critical success factor for commercial card adoption. The process typically includes verifying supplier information, setting up accounts, and integrating necessary payment processing technologies. Due to their resource-intensive nature, these initiatives have so far been limited to large corporate clients.

Technology, specifically improved access and exchange of data, offers an opportunity to streamline these high-touch processes and cost-effectively open up supplier enablement to the middle-market. In the following sections, we explain how this can be achieved.



Only 3% of middle-market companies in North America use commercial cards as their primary working capital solution, yet these businesses are experiencing **the fastest growth**.

Key challenges during commercial card onboarding

The process of transitioning clients to pay suppliers by card is highly complex and fraught with challenges for banks and clients alike. Many of these challenges stem from foundational data access and data quality issues.

Identifying target customers	Issuers are **prevented from serving the lucrative lower middle-market** due to challenges in scaling their commercial card and supplier enablement processes.
Commercial card sales process	Many clients are unable to conveniently share a high-quality vendor file. This means issuers are working with data that may be **out-of-date or incomplete**, which can reduce client buy-in or lead to mismatched goals and expectations.
Commercial card onboarding	It can take weeks for clients to **prepare and collate the necessary information** and for these files to be processed by issuers to ensure they are in a usable format for card teams.
Spend analysis and segmentation	Ensuring accurate client data can be challenging. Analyzing large, complex datasets is **resource-intensive and time-consuming**. Identifying and categorizing suppliers based on transaction data can be tricky, especially when information is not standardized.
Commercial card onboarding	Without comprehensive supplier details, many leads in the campaign are uncontactable or incorrectly identified. Without detailed contextual information on supplier relationships, **campaigns are less effective** than they would be if outreach was more personalized to each supplier.
Commercial card onboarding	Reliance on static files makes it almost impossible to onboard new suppliers or mitigate supplier churn.

The role of data and analytics

At each stage of the funnel, improving data sharing and processing can help to overcome the challenges laid out on the previous page.

Challenge	Solution
Issuers can't offer supplier enablement to the mid-market because it's labour intensive	Automated tools that integrate with clients' ERP systems can efficiently gather and validate supplier data, reducing manual workload. This allows banks to standardize onboarding and serve more customers.
Difficulty for clients to get all the information needed for a complete, accurate vendor file.	Streamlined data sharing reduces friction in the sales process and increases conversion. Issuers are able to present more compelling and accurate working capital and rebate benefits.
Lengthy process for issuers to prepare and collate necessary information.	Data from ERP systems ensures is automatically formatted into a comprehensive, and accurate spend and supplier file.
Analyzing large, complex datasets for spend analysis is resource-intensive and time-consuming.	Ongoing connections to customers' spend data makes it easy to identify good-fit suppliers, as well as access real-time data to get view of their spending behavior.
Missing or incomplete supplier data.	Access to high quality, real-time data allows issuers to create more effective and targeted campaigns. They're able to reach out to more suppliers at the right time with the right message.
Reliance on static files makes it almost impossible to onboard new suppliers or mitigate supplier churn.	Continuously refreshed data from ERP integrations enables issuers to quickly identify customers at-risk of churning and highlights new suppliers to be paid by card.

Quantifying the impact

To justify investment in technology, automation, and data analytics amidst a bank's long list of priorities, commercial leaders must be able to prove a compelling ROI. At Codat, we've collaborated with some of the world's largest and most forward-thinking banks to uncover and quantify the value drivers. These include:

Increased sales acquisition

With the ability to quickly assess potential savings and present accurate and compelling rebate offers with limited friction, teams can **increase lead conversion by 5-10%**.

Faster speed-to-spend

By bypassing the typically lengthy data ingestion and processing stages and swiftly engaging and onboarding qualified suppliers, **speed-to-spend can be reduced to 30 - 90 days**.

Increased migration of spending to cards

By leveraging robust supplier and spending data, teams can effectively reach out to the right suppliers with tailored messaging, leading to the onboarding of more suppliers onto the card program. This shift results in approximately a **10% increase in transaction volume**.

Ongoing supplier enrolment and reduced churn

With continuous data access, issuers can onboard the client's new suppliers as they appear in the file.
For most businesses, new suppliers equate to over **10% of annual spend volume**. Issuers can also use ongoing data to **reduce spend churn from around 15% to 5-10%**.

In order to arrive at these figures, banks have gone into great detail and depth to instil confidence in their internal stakeholders. The financial model on the following page is an example of how you could illustrate the tangible benefits of implementing these strategies within your business context.

Illustrative example of the ROI calculation for supplier enablement data and analytics

The financial model outlines how improved supplier enablement processes influence customer acquisition, sales conversion, and payment volume uplift for a bank with 800 virtual card clients. To lean conservative in our modelling, we assumed an increased conversion rate of 7.5%. However, considering the issuer's unique circumstances, this figure could be higher.

Customer Acquisition	
# of new leads today (annual)[1]	800
Conversion rate today	20.0%
# of new customers today (annual)	160
Increase in conversion rate[2]	7.5%
Incremental new customers	60
Annual volume migrated to card / customer	$2,000,000
Volume uplift	$120,000,000

Existing Customers	
# of existing virtual card customers	800
Average annual spend per customer	$2,000,000
# of customers successfully sharing data digitally[3]	320
Penetration	40.0%
Impact to volume moved to card[4]	30%
Incremental payment volume per customer	$600,000
Incremental payment volume achieved	$192,000,000

Aggregate Impact	
New customers	$120,000,000
Existing customers	$192,000,000
Volume uplift	$312,000,000
Total connected customers	380
Volume uplift per connected customer	$821,053

Key

- Current State
- Inputs
- Outcomes

$312 million expected uplift in payment volume for a bank with 800 virtual card customers.

Descriptions

1. # of new leads annually for commercial card clients
2. % increase in leads converting to customers due to a lower friction onboarding process i.e. 7% would imply that an incremental 7 in 100 leads convert to customers.
3. Customers with compatible ERP software who are willing and able to share their data digitally
4. % increase in payments processed from card customers due to faster speed to spend, increased migration to card and reduced spend churn

Conclusion

Trillions of dollars in B2B payments are moving away from cash and paper checks. Modern payment technology and data analytics are now industry norms. Banks must seize this trend in order to unlock the potential of middle-market businesses and boost non-interest income. Failure to capitalize on this opportunity could leave them at a significant competitive disadvantage.

About Codat

Codat helps banks build deeper connections with business customers.

We offer products that make it easy to access, synchronize, and interpret data from customers' financial software for specific use cases, such as onboarding suppliers to commercial card programs and underwriting business loans.

The world's largest banks use Codat to grow their share of wallet, reduce churn, and scale operations.

codat.io   info@codat.io

codat