Commercial card growth: How to eat the $11 trillion B2B pie

Veronica Fernandez, SVP, Head of Business Solutions, North America, and David Stewart, VP, Head of Commercial Advisory Services, Visa Consulting & Analytics

A team of economists at the Federal Reserve Board of Governors track noncash payment trends in the U.S. Since 2001, they have measured the number and value of transactions across all major payment methods. Based on their December 2021 update to the Payments Study, we estimate there were 2.9 billion B2B checks for an estimated $11.8 trillion. This represents 26 percent of all checks paid by U.S. depository institutions and 57 percent of paid check dollar value.[1]

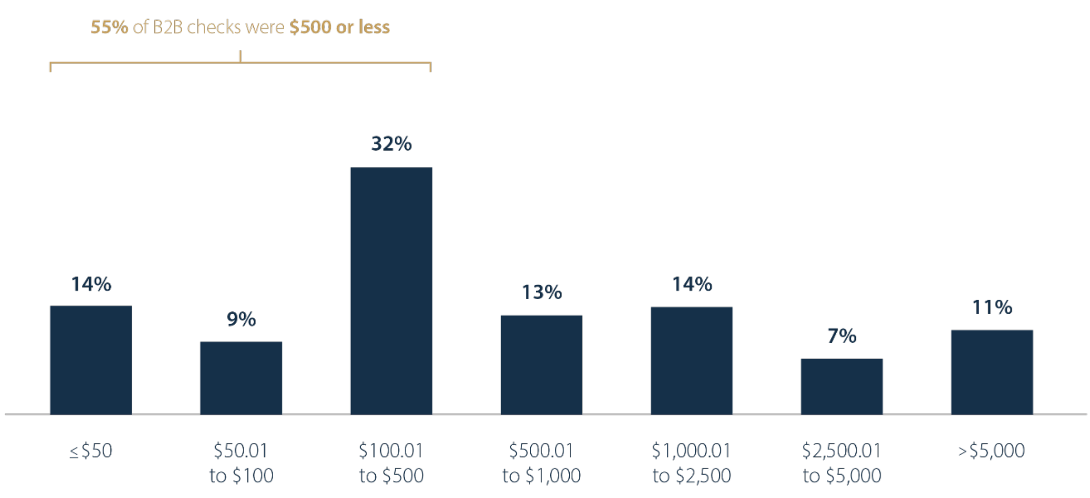
Despite decades of decline in check use, check displacement remains a massive growth opportunity for electronic payments, particularly for commercial card. For context, commercial card rails process an estimated $0.5 trillion in business spend, equivalent to just four percent of the value of B2B checks.[2]

If you are reading this, you are likely familiar with the traditional challenges to commercial card acceptance by suppliers, e.g., card processing fees, manual processing of virtual card payments, AR reconciliation. These challenges are real, but innovators at Visa and our partners are making strides on these daily. For example, Visa's Commercial Choice program allows high flexibility for trading partners to negotiate transaction costs bi-laterally; and the Business Payments Network – a Visa partnership with Billtrust – radically simplifies payments processing and reconciliation for card-accepting suppliers.

Let's also consider the inertia by corporate buyers who write all these checks. According to the Fed's last Check Sample Survey, 82 percent of B2B checks were for $2,500 or less, and over half (55 percent) were for $500 or less.

Distribution of B2B checks by dollar value

Percentage of checks paid



Sources: Federal Reserve 2018 Check Sample Survey

[1] Based on the Fed's 2018 Check Sample Survey, 26% of checks paid in the U.S. were "B2B." They made up 57% of paid check value. We believe our estimated number and value of B2B checks in 2020 are conservative. Given the ongoing decline in check use by U.S. consumers, B2B share is likely even higher today than it was in 2018.
[2] McKinsey & Company's *U.S. Payments Map* estimates 2020 U.S. commercial card spend at $485B.

These low-value transactions should be "cardable," right? Unfortunately, too few buyers feel motivated to pursue these opportunities. Often the ROI feels too low to track down all the data about where these checks are going and then convince suppliers to accept card. Generating a consolidated "spend file" may require tapping into multiple systems with disparate data structures. In the end, fewer than half of the company's suppliers are likely to accept commercial cards. It's no wonder decision makers don't jump at the chance when bank salespeople ask for a spend file simply to determine if there's an opportunity worth pursuing.

A new operating model

But what if that weren't the model? What if we took the burden of finding opportunities away from the corporate client entirely? What if a card salesperson showed up at the door with a credible opportunity already in hand? That's the model Visa Consulting & Analytics is helping our client banks to embrace.

> This simple change in **when** data analysis gets done dramatically compresses the sales cycle

Each of the 2.9 billion B2B checks paid every year is paid by a financial institution. Most FIs (or their processors) use optical character recognition (OCR) in the daily processing of those checks. By repurposing OCR data from checks, banks can identify which suppliers their corporate customers are paying. In partnership with Visa's Supplier Matching Service, market leading banks are identifying which of those suppliers already accept commercial card and then pinpointing which business customers at the bank have the greatest opportunity to shift check spend with those suppliers to card. These banks' salespeople no longer begin a client conversation by asking for a spend file. Instead, they present a credible analysis based on the client's own payments volume processed by the bank.

What used to be a data mining project for the client becomes a simple, data-driven decision about how to move forward. Clients love it. Salespeople love it. And – good news for depository institutions – you are in a unique position to approach your business customers about these opportunities. Without the DDA relationship, commercial card salespeople must use the old model.

If it sounds too good to be true, it's not. But it does take work.

Here are four tips for FIs that want to adopt this new method of accelerating growth in their commercial card portfolio:

1. **Engage treasury product and their payment operations & technology partners**

   The commercial card team cannot do data mining alone. If the FI happens to be mining check data already, odds are the commercial card team doesn't have access to the data. Enter the payables team and their payment operations and technology (O&T) partners. These folks get stuff done. Check op's leaders at most banks have dedicated their careers to the creative destruction of their lifeblood. They know how to recognize inefficiencies and wring them out. They're problem solvers and collaborators. They have supported the treasury management product organization for decades. It's time for commercial card teams to engage with them as well.

The payables and O&T leaders in your bank will bring a pragmatic approach to solve problems, e.g.,

- How to capture data that may not be captured today (e.g., payee address)
- Where to house OCR data that may not be warehoused today
- Whether it will be more practical to mine checks already in the image archive or to capture data on a go-forward basis as part of daily check processing (e.g., augment the data collected for Payee Positive Pay)
- Whether existing AI or machine initiatives at the bank might accelerate data collection

Other important stakeholders might include leaders from an enterprise payments team or enterprise data strategy. Not all FIs have these roles, but for those that do, those teams' missions likely align perfectly with this effort.

2. **Don't let "perfect" be the enemy of "good"**

Spoiler alert: Not all checks include payee address information, so this approach won't work in all situations. That's ok. Clients who print address information on checks tend to do it on all their checks, so the match results for any given client can be fantastic. If only half of treasury management customers print payee address information on checks, the pipeline of credible commercial card opportunities would be orders of magnitude greater than it is today under BAU. And in our experience, most checks drawn on "analyzed accounts" include payee address.

The challenge of coordinating data mining across teams or the need to engage with IT may feel daunting. If it's too hard to execute side-of-desk in the next quarter, start small. Set up a proof-of-concept to demonstrate the value. It will justify the resources needed to invest in a full-scale operating model shift.

One way to start small is by lowering your sights from mining check image data to working with ready-to-read check files the bank receives from clients each day. Such clients include those who use integrated payables solutions or who pay the bank to print and mail checks on their behalf. These customers regularly hand the bank a data file of suppliers with address information. Focusing first on these clients can allow you to pilot the concept and then build the case for broader change in the months to come.

3. **Retrain the sales team**

Salespeople will need training to help them be most effective with this new approach. In many respects, it's just like the old one: identify credible spend opportunities based on check payments to known commercial card acceptors. The new approach simply changes how and, importantly, when the bank gathers the source data. Rather than ask for a spend file and wait, the salesperson gets to the "so what" in meeting #1. The spend analysis is already done.

This simple change in *when* data analysis gets done dramatically compresses the sales cycle. One of our favorite anecdotes is about the bank salesperson who came back to the office after a first client meeting and announced, "That was the easiest sale I've ever made!" Salespeople need to get on their front foot, ready to close on day 1. And... they must be equally ready to pivot back to the old model. For example, the bank may not process all the company's disbursement checks. In that case, it may be prudent to request a spend file – just like the old days – to get a full picture of the opportunity. Luckily, the decision maker has already gotten a sense of how attractive the opportunity might be. This will only accelerate how quickly they share a spend file for the bank to analyze.

The bigger change in sales delivery relates to pipeline management and the process of preparing for client discussions. Unlike the old days when spend files trickled in, this new approach involves sizing hundreds, and likely thousands, of client opportunities up front. Whatever the size of any given salesperson's or account manager's portfolio, they will struggle to manage all the opportunities. It's a terrific problem to have – and exactly where sales support and process automation can have a big impact.

4. **Automate sales discussion prep**

A salesperson who spends minutes, rather than hours, preparing properly for each client discussion will be a far more productive salesperson. That needs to be the goal under the new model. Faced with an embarrassment of riches – dozens or hundreds of high-quality leads – sales effectiveness depends more than ever on sales process efficiency.

We have worked with FIs to streamline data analysis and pitch deck production, so salespeople spend more time selling and less time preparing to sell. With the intuitive tools we have designed, a salesperson or sales support person can review client-specific data, make judgments about opportunities to exclude based on knowledge of the buyer-supplier relationship or the size of check transactions involved, and then generate a customized pitch deck with the push of a button. The deck incorporates client-specific data into templated sales materials along with boilerplate sales collateral.

An argument can be made that the easy growth in commercial card is over… that commercial card issuers are in a race to the bottom.

We are more optimistic than that. We believe there is a tremendous, untapped opportunity out there – an $11.8 trillion pie in the form of 2.9 billion B2B checks.

Visa's client banks are beginning to recognize that potential. Some are further along than others, but we hope all FIs will begin to adopt check data mining as a tool to address this massive opportunity for card volume growth.