

B2B healthcare in the U.S.: The next frontier for digital payments

Disruption awaits an industry reliant on inefficient paper-based processes

Visa Business Solutions

While the world is increasingly moving toward digital payments, commercial healthcare has been slow to catch on. Nearly 85 percent of healthcare procurement, in which hospitals and healthcare providers purchase medical supplies and equipment, is paid manually via paper checks.¹ This can result in significant operational inefficiencies and financial losses.

“Provider organizations need to be ready for the digital age, which means automating as many processes as possible to reduce unnecessary work and costs,” says Nasser Chanda, CEO of Paymerang, a provider of invoice and payment automation software for the healthcare industry.

Commercial payments in the healthcare industry, in fact, offer an estimated \$2.9T opportunity for fintechs and financial institutions (FIs) ready to meet this demand.² The U.S. wholesale medical supply market, which distributes dental and medical supplies and equipment, alone was projected to reach more than \$268B in 2021 and to achieve a market size of more than \$305B by 2026.³ Although substantial inroads have been made to automate healthcare procurement, a sizable opportunity to digitize it leaves fintechs and FIs a role to play to reduce friction and create automated procurement and receivable processes for the industry.

Disruption takes two

Healthcare fintechs have the opportunity to take the lead by innovating to improve procurement and address critical pain points, such as highly fragmented payments to small suppliers, multi-step purchase order processes, long days sales outstanding (DSO) periods and the need for healthcare-specific data to meet regulatory demands.

But fintechs can't go it alone. They need the support and expertise of traditional FIs that can connect emerging solutions with the broader financial and payments ecosystem. Healthcare fintechs, in fact, can better facilitate payments by leveraging products and services provided by regulated FIs, such as credit and lending, card-based solutions like virtual card and traditional treasury management services.

“Visa remains very focused on the U.S. healthcare opportunity within B2B payments, one of the largest vertical opportunities in the market. We have taken an active role in engaging with the fintechs and financial institutions, that are innovating and creating the solutions to meet the needs of businesses serving this industry vertical,” says Jay Darnell, Visa's Head of North America B2B Fintech Partnerships.

¹ “The Cost of Paper Records on Both Sides of the Healthcare Supply Chain Is Daunting,” *Remitra*, 2021 ([link](#)).

² *Ibid.*

³ “Medical Supplies Wholesaling in the U.S.,” *IBISWorld*, July 2021, Jack Curran.

Together, healthcare fintechs and FIs are poised to disrupt the challenges of this industry with products that drive efficiencies in areas such as regulatory compliance, working capital and supply chain management.

Hidden costs of paper

Manual paper-based processes add as much as \$22B in unnecessary annual expenses across the healthcare industry.⁵ Take invoicing, for example, where 70 percent of supplier invoices are sent via mail or email, and 50 percent of healthcare organizations pay their suppliers with a check.⁶ These manual processes often lead to errors, which can cost the industry between \$4M and \$6M in erroneous payments annually.⁷ Invoice errors strain suppliers' access to working capital, as they result in a 64-day payment delay on average.⁸

80 percent of healthcare CFOs think digital transformation is critical for their health system to survive⁴

A recent study on overall commercial card acceptance showed that card acceptance resulted in a 66 percent reduction in DSO.⁹ Healthcare fintechs can alleviate some of these pain points by speeding up supplier payments and improving supplier access to working capital. They can also improve the purchasing power of healthcare organizations by allowing them to schedule payments at opportune times and to leverage a line of credit to make payments. Digital payment solutions can provide real cost savings through efficiency improvements; on average, each manual transaction costs \$5.42 more and takes nine minutes longer than a digital transaction.¹⁰

Healthcare fintechs can also provide further transparency by providing an end-to-end digital view of the purchase and invoice process. Manual payments provide no way to easily view when a payment has completed or what a transaction is for. Without access to transaction data, identifying past purchases can become cumbersome task, particularly in healthcare's strict regulatory environment. Digital payments offer access to enhanced data, which support invoice-level details that help organizations manage data application in payment processes. Having a holistic view of the purchase and invoice process simplifies payment in what is typically a highly fragmented supply chain.

Small but mighty

Digitizing healthcare procurement provides benefits to healthcare organizations of all sizes, including small private practices. An estimated 63 percent of the digital opportunity in procurement exists between small buyers and small suppliers¹¹, such as an independent doctor's office purchasing supplies from a small medical supply company. Making payments to

⁴ "Digital Transformation Investment is Critical to Health Systems Survival," *PR News Wire*, 2017 ([link](#)).

⁵ "The Cost of Paper Records on Both Sides of the Healthcare Supply Chain Is Daunting," *Remitra* 2021 ([link](#)).

⁶ "Payables automation for Healthcare," *PayStream Advisors*, 2018 ([link](#)).

⁷ "Tech Enabled and Paper Free Bringing Healthcare Purchasing into the 21st Century," *Remitra*, 2021 ([link](#)).

⁸ *Ibid*.

⁹ "The total economic impact of commercial credit card acceptance," *Forrester*, 2021 ([link](#)).

¹⁰ "Trends in Healthcare payments, 11th annual report: 2020," *InstaMed*, 2021 ([link](#)).

¹¹ "2019 Bureau of Economic Analysis supply of commodities by industry," *Boston Consulting Group*, 2019

many small, fragmented suppliers often requires time-consuming and manual processes, contributing to healthcare's high average DSO.¹² Smaller healthcare organizations also often have limited purchasing power in healthcare procurement.

Digital payments can help improve their negotiating power with greater access to their organization's previous purchase data, strategic sourcing and improved invoicing that keep suppliers accountable. Not only can healthcare organizations leverage these platforms to source suppliers and to ensure they are getting the best price, but they can also reduce the costly processes of managing paper transactions.

Digital opportunity knocks

Digital payment solutions improve efficiency by increasing transparency and automating the entire payment and procurement process. Implementing a holistic payments solution can increase revenue by maximizing early pay card rebates while optimizing back-office processes by paying invoices from a single platform.

"Automation brings greater efficiency to hospital financial operations, allowing finance departments to focus more on the revenue cycle, including billing and collection," says Chanda. "With automation on the physician practice side, for example, office managers can focus on running world-class healthcare facilities and supporting doctors. This results in better-run practices and improved patient care."

[Virtual card payments](#), which generate a unique card number, expiration date, and security code as a proxy to a traditional plastic card or paper check, can automate the often-complex healthcare purchasing process, benefitting both buyers and suppliers. Not only do digital payments enhance efficiency, but they provide buyers with rich data that support the required compliance reporting. Sellers benefit from greater liquidity and a simplified way to reconcile payments, while buyers earn savings from automation, capture card rebates and can preserve working capital by making purchases on a line of credit.

Healthcare procurement is ripe for change. Healthcare fintechs and their FI partners are playing a critical role with suppliers and buyers, helping to facilitate scalable payments to a fragmented group of suppliers. As healthcare companies continue to see the benefits of digitizing their business processes, the role of their financial providers and the ability to provide efficient cost-effective payment solutions will become even more integral to their success.

¹² Ibid.