MasterCard Worldwide

# ACCEPTANCE MATTERS – AND YOUR CUSTOMERS AGREE*

BY ROB SNYDER, PRODUCT LEADER, COMMERCIAL PRODUCTS, & KAISER ASSOCIATES

## RESEARCH HIGHLIGHTS

- **Suppliers stand to gain additional revenue by accepting cards from business customers.** 49% of Buyers indicated that they would increase purchasing volume if their current non-accepting Suppliers began accepting cards.
- **Non-accepting Suppliers risk losing order volume to card-accepting Suppliers.** 38% of Buyers indicated that they've consolidated Suppliers in the past due to card acceptance at one and not the other.
- **Buyers may purchase more often with card-accepting Suppliers.** 57% of Buyers indicated that they would increase ordering frequency with a Supplier if they accepted card.
- **Buyers are more likely to select Suppliers that accept cards.** 55% of Buyers indicated that they were more likely to select a Supplier that accepts card versus one that does not in the same spend category.
- **Card acceptance leads to improved customer satisfaction and account longevity.** 82% of Buyers indicated an increase in satisfaction due to card acceptance.
- **Suppliers can use card acceptance to phase out early pay discounts.** 51% of Buyers displayed willingness to give up their current early pay discount in favor of paying with card at the point of purchase.

**49%** PERCENTAGE OF BUYERS THAT WOULD INCREASE PURCHASING VOLUME IF THEIR CURRENT NON-ACCEPTING SUPPLIERS BEGAN ACCEPTING CARDS

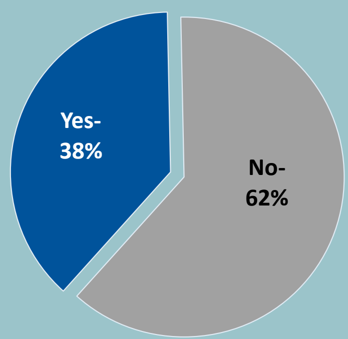
## EXECUTIVE SUMMARY

When considering strategic options to help grow company revenues and increase customer loyalty, changes to revenue collection methods are often passed over in favor of product innovations and brand-awareness campaigns. But what if changing a company's collections process provided a strategic advantage over its competitors?

Supplier card acceptance at the point of purchase for business-to-business (B2B) transactions is already recognized as a cost-effective way to manage collections. Now, new research conducted on the purchasing habits of corporate buyers indicates that card acceptance can lead to **increased revenues** for accepting Suppliers. MasterCard, partnering with Kaiser Associates, studied the buying habits of 154 North American corporate purchasing managers to evaluate the effect of card acceptance on corporate purchasing. The surveyed sample was diverse, representing firms in varying industries and undertaking varying categories of spend.

* All statistics, unless otherwise sourced, were derived from MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013

HAVE YOU EVER CONSOLIDATED SUPPLIERS DUE TO CARD ACCEPTANCE AT ONE AND NOT THE OTHER? (N = 154 MANAGERS)




Source: MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013

Corporate purchasers from the study indicated that cards facilitate greater payment security and efficiency during the procurement process, and that the benefits of using cards as a payment tool lead them to use cards more often. This study analyzed the predominant areas of a Suppliers' operations where these Buyer preferences can positively benefit the Supplier.

## REVENUE BENEFIT FROM CARD ACCEPTANCE #1: Increased Volume per Customer

It's old news to many Suppliers to hear that Buyers appreciate the value that cards offer. However, Suppliers may be surprised to learn of the extent to which Buyers would alter their spending habits to realize this value – 49% of Buyers were "likely" or "very likely" to increase purchasing volume with a previously non-accepting Supplier once it began accepting cards. Data from the study indicated that this increase in volume can be traced back to three key drivers:

### Key Drivers of Increased Volume at Card-Accepting Suppliers

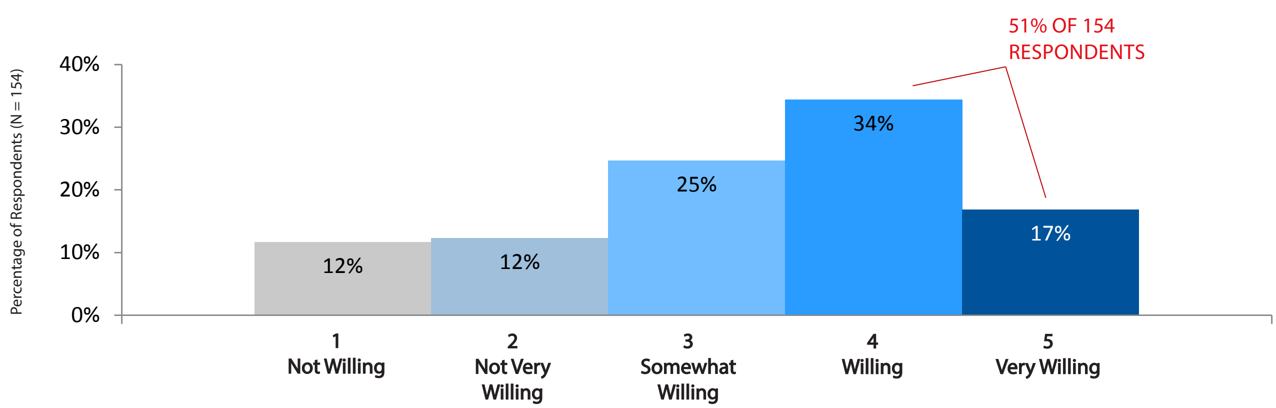
1. **Buyer Interest in Consolidating Suppliers:** Card acceptance is a significant decision driver for Buyers considering vendor consolidation opportunities. 38% of the Buyers in the study have previously consolidated Suppliers within a spend category due to card acceptance at one and not the other.

2. **Buyer Willingness to Substitute Card for Early Pay Discount:** If used properly, cards provide a unique platform that creates value for both Buyers and Suppliers – often in excess of the value derived from an early pay discount. Suppliers lose top-line revenue when offering these discounts in order to incentivize speedy payment and reduce their volume of receivables; by accepting cards at the point of purchase, even speedier payments can be achieved, and without a reduction in price for the Supplier. This study suggests that Buyers see cards' value in excess of the early pay discount – 51% of Buyers were "willing" or "very willing" to forego an early pay discount in favor of paying with card.

"WE'RE IN THE PROCESS OF ELIMINATING AS MUCH PAPER AS POSSIBLE, SO IF WE CAN CONSOLIDATE WITH A SUPPLIER THAT TAKES CARD, WE WILL."

-- FINANCE INDUSTRY BUYER

HOW WILLING WOULD YOU BE TO GIVE UP AN EARLY PAY DISCOUNT SO YOU COULD PAY WITH CARD AT THE POS?




Source: MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013

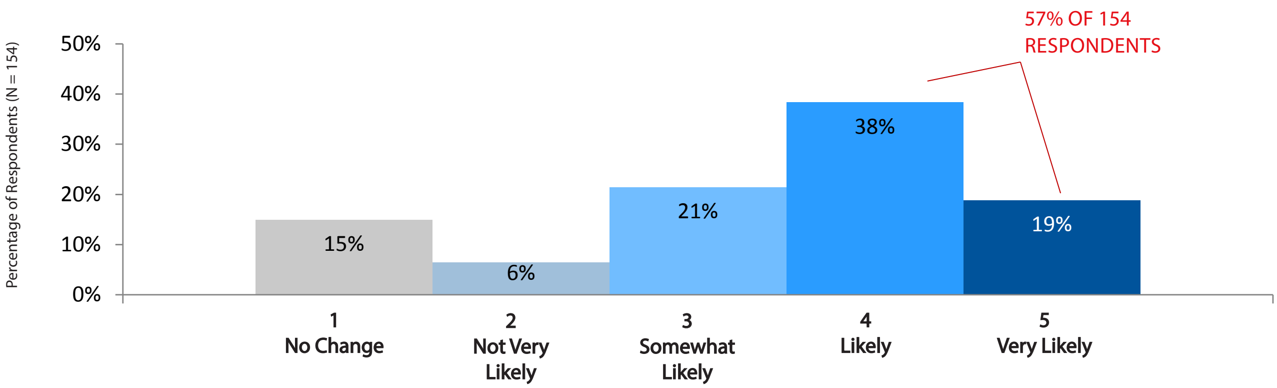
3. **Facilitation of Ad-Hoc Purchasing:** By providing a level of control and fraud prevention that's often beyond what traditional payment methods can offer, cards facilitate de-centralized purchasing much better than do checks, cash, or ACH. An example of de-centralized purchasing occurs when a manager circumvents the traditional procurement processes, most often when a time-sensitive purchase is needed. By accepting cards, Suppliers make themselves more available for this type of purchasing.

"IT SPEEDS UP OUR PROCESSES, REDUCES ERRORS, AND TAKES AWAY THE STRESS ASSOCIATED WITH SENDING A CHECK AND HAVING IT GET LOST IN THE MAIL OR BE DELAYED … IT'S ALMOST ALWAYS WORTH THE 1%."

-- MANUFACTURING INDUSTRY BUYER

## REVENUE BENEFIT FROM CARD ACCEPTANCE #2: Greater Revenue Consistency

### HOW LIKELY WOULD YOU BE TO ORDER MORE FREQUENTLY WITH A SUPPLIER THAT ACCEPTS CARD VERSUS ANOTHER IN THE SAME CATEGORY?




Source: MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013

Paying with cards enables a more streamlined purchasing process for Buyers. The streamlining effect derives from the removal of multiple manual processes attendant to other collections methods – for example, eliminating the need to write a check or match an invoice to a payment. Data from this study suggests that cards' streamlining of the payment process encourages Buyers to purchase more frequently from their suppliers – 57% of respondents indicated that they would be "likely" or "very likely" to increase ordering frequency with a Supplier that accepts cards versus a non-accepting Supplier.

"IT'S A LOT EASIER FOR US TO USE CARD FOR THINGS THAT WE KNOW WE'RE GOING TO BE PURCHASING … BECAUSE [THE PROCESS] IS AUTOMATICALLY HANDLED [BY THE SUPPLIER]."

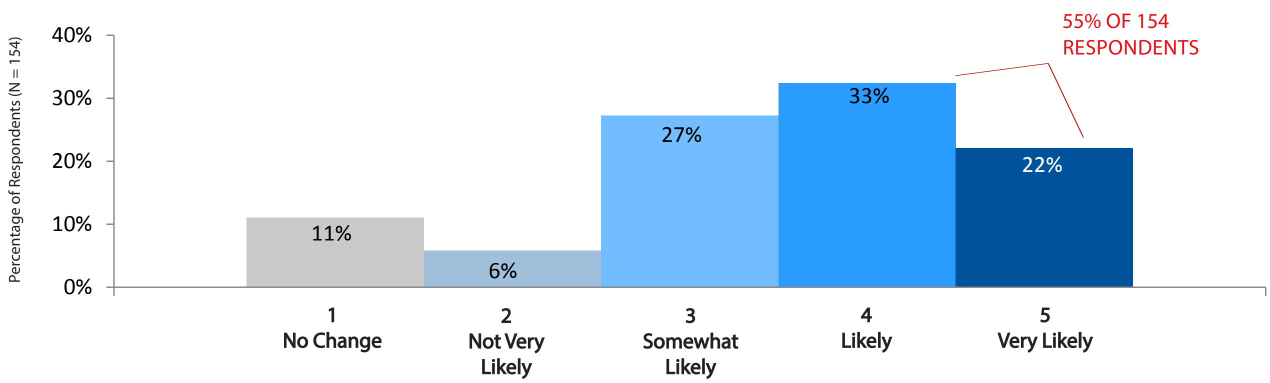
-- PROFESSIONAL SERVICES INDUSTRY BUYER

Increasing the frequency of customer ordering – even while holding total purchasing volume constant – benefits the timing of cash flows to the Supplier. When Suppliers receive cash more consistently with more frequent purchasing, it allows them to reduce swings in working capital (and, therefore, the maximum level of working capital required). In this way, the "smoothing" of revenues resulting from card acceptance can potentially positively impact Supplier cash flow.

## REVENUE BENEFIT FROM CARD ACCEPTANCE #3: Increased Likelihood of Initial Vendor Selection

Buyers' preference for using cards leads them to seek out card-accepting Suppliers. In the study, 55% of managers indicated they were "likely" or "very likely" to select a Supplier that accepts cards over one that does not in a particular spend

### HOW MUCH MORE LIKELY ARE YOU TO SELECT A SUPPLIER THAT ACCEPTS CARD OVER ONE THAT DOES NOT?




Source: MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013

**"IT'S EASIER FOR US TO TRACK PURCHASES MADE WITH CARD IN OUR AP SYSTEM … IF WE'RE LOOKING FOR A NEW SUPPLIER, CARD ACCEPTORS MOVE TO THE FRONT OF THE LINE."**

**-- WHOLESALE / RETAIL INDUSTRY BUYER**

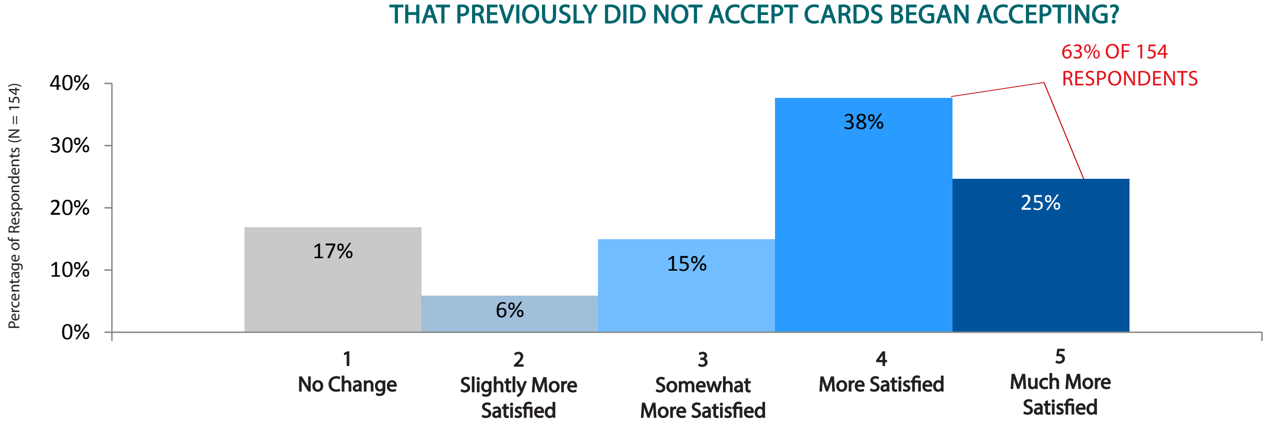
category. This effect was observed across all spend categories, and was strongest in non-strategic spend categories. The top four spend categories with the greatest Supplier selection effect due to card acceptance were Fuel, Travel, Office Equipment, and Printing Services (respectively).

Given that card is not often promoted as a payment option at B2B Suppliers in North America, promoting it as such could add to a Supplier's differentiation relative to its competitors. MasterCard has witnessed Buyers operationalizing this attitude by increasing their utilization of MasterCard's Merchant Match Tool (MMT) – a database listing all MasterCard accepting B2B vendors. Adding card acceptance to a firm's capability list – and thus gaining representation on MasterCard's MMT – has proven to be a simple way to increase competitiveness.

## REVENUE BENEFIT FROM CARD ACCEPTANCE #4: Decreased Customer Churn

Suppliers appealing to Buyers' preference for using cards for purchases may see an increase in customer satisfaction. In this study, 63% of managers indicated that they would be "more" or "much more" satisfied if one of their existing non-

### HOW MUCH MORE SATISFIED WOULD YOU BE IF ONE OF YOUR SUPPLIERS THAT PREVIOUSLY DID NOT ACCEPT CARDS BEGAN ACCEPTING?




Source: MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013 accepting Suppliers began accepting cards. This increase in satisfaction has the potential to lead to longer-lasting customer relationships. Managers in the study indicated that an increase in satisfaction would increase relationship longevity by over 60%. Card acceptance can thus facilitate considerable growth in the lifetime value of customers.

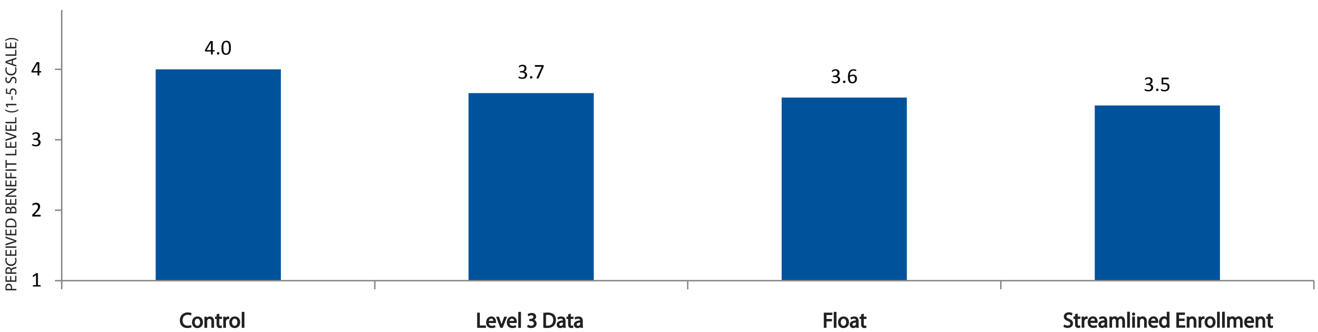
“EVERYONE KNOWS THAT CARDS ARE THE FUTURE OF PAYING FOR THINGS … [CARD ACCEPTANCE] SHOWS THAT [SUPPLIERS] ARE LOOKING AT THE FUTURE OF THEIR RELATIONSHIPS WITH THEIR BUYERS.”

-- MANUFACTURING INDUSTRY BUYER

## Why Do Buyers Prefer Cards?

Now that we’ve established that card acceptance can improve top-line revenue, let’s understand what would drive managers to purchase differently when using a card versus a check or ACH. This study found that purchasing managers prefer to use card for purchases for a myriad of reasons – all of which may result in more secure and more efficient purchasing than when check or ACH is used.

**VALUE OF BENEFITS FROM CARD USE**
**(AVERAGE OF 154 RESPONSES ON 1-5 SCALE; 5=VERY VALUABLE)**




Source: MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013

### Primary Benefits of Card Identified by Buyers:

- **Purchasing Control:** Cards provide for protection against unintended and fraudulent purchases, errors, and misuse by employees
- **Level 3 Data:** Data provided at the line-item detail level allows for efficient reconciliation, tracking of purchases, and oversight of compliance
- **Payment Float:** Cards’ billing cycles lengthen the gap between the time of purchase and the time of cash disbursement – helping to achieve lower working capital requirements
- **Streamlined Enrollment:** Eliminating trade credit mitigates the need for a vendor-sponsored background credit check – thereby streamlining the vendor enrollment process. 96% of the Buyers surveyed reported a substantially shortened vendor enrollment process with Suppliers that accept cards.

“WE WANT TO PAY FOR WHATEVER WE CAN WITH CARD … CARD GIVES US EXTRA TIME TO PAY FOR OUR INVENTORY WHICH HELPS A LOT GIVEN THE SHORT PAYMENT TERMS THAT WE HAVE.”

-- MANUFACTURING INDUSTRY BUYER

## Conclusion

The research conducted in this study reveals that Buyer decision-making and purchasing habits are influenced considerably by the card-acceptance status of a Supplier. By opening up card acceptance as a payment option for business customers, Suppliers can position themselves to earn higher revenues and better compete against their non-accepting competitors. Representation on MasterCard's MMT (Merchant Match Tool) is a simple and effective way for Suppliers to inform Buyers that they in fact accept. In addition to potential immediate revenue benefit, card acceptance can help drive greater revenue consistency and a higher lifetime value of a Supplier's customers. The broadening of the customer base, coupled with the potential to earn higher revenues from all customers, provides multiple avenues for Suppliers to drive future business growth by adjusting the revenue collection process, a business lever often overlooked when exploring new growth opportunities.

## MasterCard Worldwide

MasterCard (NYSE: MA), www.mastercard.com, is a global payments and technology company. It operates the world's fastest payments processing network, connecting consumers, financial institutions, merchants, governments and businesses in more than 210 countries and territories. MasterCard's products and solutions make everyday commerce activities – such as shopping, traveling, running a business and managing finances – easier, more secure and more efficient for everyone. Follow us on Twitter @MasterCardNews, join the discussion on the Cashless Conversations Blog at http://newsroom.mastercard.com/blog/

## SOURCES

MasterCard and Kaiser Associates, Supplier Incremental Revenue Analysis, February 2013

## ABOUT THE AUTHORS

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Rob Snyder is a Leader of Product Management for Commercial Products at MasterCard Worldwide. He is responsible for developing and delivering products and solutions that increase the financial efficiency of businesses and governments operating in the US and Canada. Prior to MasterCard, Rob worked as a Management Consultant focused on the financial service industries and for a European based investment banking boutique. Rob has an MBA from the Kellogg School of Business and a B.S. in International Relations from Tufts University.

### Kaiser Associates

Kaiser Associates is a strategy consulting firm that works extensively on issues of growth and innovation with payments leaders globally. Founded in 1981, the firm specializes in using custom primary research to provide fact-based decision-making support (on global best practices, markets, customers, competitors, suppliers, partners, etc.) to clients. Kaiser's payments work covers the full suite of traditional and emerging products including consumer credit, debit, commercial, prepaid, acquiring, processing, e-commerce, mobile, and P2P payments. Based in Washington, DC, and with offices worldwide, Kaiser provides payments strategy support to clients in over 35 country markets.

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