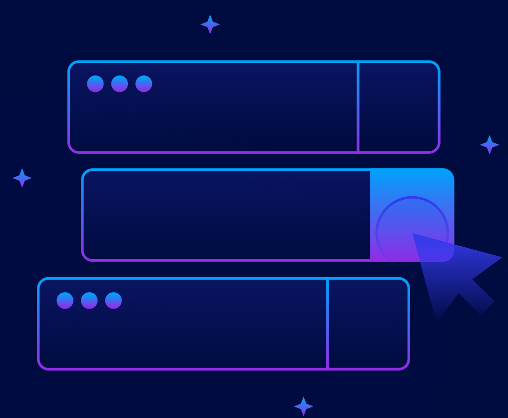
How to offer net payment terms to business buyers online

Business buyers expect net payment terms, both online and offline. Learn how to offer net payment terms to buyers without adding friction to the buying process, additional risk, or manual overhead.



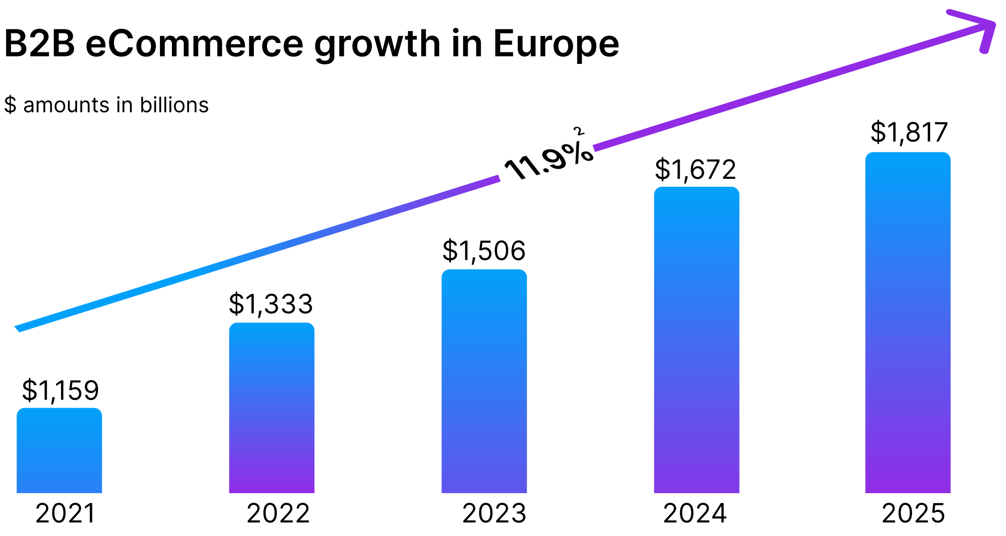
Content

Introduction

B2B purchasing is increasingly going online. The US International Trade Administration forecasts that B2B eCommerce in Europe alone will reach $1.8 trillion by 2025. Although the corona pandemic has played a key part in accelerating the shift of B2B commerce from offline sales to online sales, it is only part of the story. The transition has been in the making long before COVID.

The reason behind the shift is B2C e-commerce. Depending on where and how you measure, B2B commerce is probably 10 to 20 years behind B2C e-commerce when it comes to online adoption and providing a seamless digital customer experience. The majority of business buyers today are millennials and they bring the expectations of a seamless customer experience to the business buying process.

Payments are a key part of any buying process - both online and offline. Over the past two decades, there has been continuous innovation in making online purchasing and payments super easy for consumers. This includes one-click checkouts and frictionless online payments, such as Buy Now, Pay Later where consumers can complete a purchase, just by entering their email address, and paying for their purchase after the goods have been delivered.



Source: Trade Gov

We have seen first-hand how having the right online payment experience can have an enormous impact on growth, even for mature marketplaces. It attracts new customers and increases order conversion rates, average order values, and repeat order rates.

When it comes to B2B commerce, payments are also a crucial part of the buying journey. And similar to consumer transactions, it is important for B2B marketplaces or merchants to offer “buy now and pay later” (BNPL) options to their buyers. However, it is interesting to note that “buy now pay later” has been the standard in B2B for decades: business buyers are used to receiving goods or services and paying for them 30, 60, or 90 days later, depending on the industry.receiving goods or services and paying for them 30, 60, or 90 days later, depending on the industry.

Traditionally, merchants give business buyers payment terms after completing multiple purchases and allow them to purchase goods up to a credit limit they would feel comfortable with. Over time this limit would increase as businesses get to know and trust each other. This process is likely to be supported by (manual) credit checks with credit bureaus such as Graydon or Credit Safe.

Net payment terms are much easier to extend in an offline environment when you have the time to investigate a buyer and the opportunity to meet them face-to-face. In the fast-paced online environment, this is much harder to do, and the risk of losses as a result of credit defaults or fraud is high. Business buyers (like any other person) expect a frictionless buying experience online, without having to wait for days to be approved for terms and to start purchasing. This puts pressure on the fraud- and credit risk assessment process and can only be solved by a solid process and network of integrations.

The B2B merchants, platforms and marketplaces that get this experience right will have a real advantage over competitors. Buyers will return to merchants where they can get net payment terms and where the purchasing experience is convenient and fast. For you, the marketplace or merchant, this means growth through higher-order values, higher order conversion and repeat purchase rates. It also means that old processes with manual checks and form submissions will become largely redundant and presents an opportunity to simplify and reduce operational costs.

But getting this experience right is not easy. This paper aims to help merchants and marketplaces that are looking to offer payment terms to their buyers online.

It covers 4 elements that we believe are crucial to getting this right:

- **Buyer onboarding**
- **Credit limit management**
- **Payments and collections**
- **Cash flow management**

We wish you a pleasant read!
The Sprinque team

Authors


Juan Espinosa
Co Founder & CEO


Mark Holleman
Co Founder & CPO


Manoj Tutika
Co Founder & CTO


Jeroen Ruigrok
Commercial Director


Daniel Wehnes
Senior Risk Analyst

1: Buyer onboarding

The process of onboarding new customers needs to be as smooth as possible. Any friction in the process will turn customers away, but any weaknesses in your safeguards will increase your risks.

Key points:

- **Verify buyers instantly**
- **Set up credit and risk policy**
- **Assign credit limits**
- **Measure effectiveness against key criteria**

To get started, you need to have a robust solution for onboarding business buyers onto your platform. The best scenario is that the business buyer knows whether they have been approved for net payment terms by the time they finish the registration or sign-up process. This way, the business buyer will know whether they have been approved for net payment terms before they start purchasing on your site.

To achieve this, you need to verify that the buyer is an actual, active business. You also need to verify additional information about the business, such as its registration number and registered address. There are different data providers that can help with this; you can either integrate directly with various chambers of commerce or other government agencies in your buyer countries, or you can work with a credit bureau (some of them offer such a service). If you service buyers in multiple countries, this means that you will need to identify the most relevant databases and integrations per country or region.

As a marketplace or merchant, you will also need to check if the user that is registering the business, actually works for and represents that business.

You want to check where the user is located, whether the email address domain is a business email address or a private one, and whether any known fraud cases have been reported around either the IP address or the email address.

Once you have verified that the buyer is an actual business and that there is no known suspicious activity around the user’s IP and email addresses, the next step is to determine the business's creditworthiness.

To make credit decisions, you will need to set up a credit policy, which outlines how you will decide which buyers will get credit and how much.

Depending on which countries your business buyers are located and what types of business entities they are (e.g., small businesses, such as sole proprietors, or larger enterprises), you will need to work with different credit bureaus to find credit information about the business that you are onboarding.

You will need to determine which combination of data sources gives you the best match rate, and these sources you will need to integrate into a workflow tool to make credit decisions. For some businesses, it will not be a clear-cut yes or no decision, and someone will need to manually review the business information before making a credit decision.

Once these steps have been completed, the output from this process will be whether the buyer has been approved or rejected, and if they have been approved, what credit limit you assign to this buyer.

Key metrics for measuring buyer onboarding effectiveness

When building or buying a buyer onboarding solution, you need to have a clear way to compare solutions and measure their effectiveness.
The key metrics to think about when building (or buying) a buyer onboarding solution are:

Business match rate: What percentage of new business buyers can you find credit information on with your chosen data sources? The higher this percentage, the fewer buyers you will disappoint and hence the better the customer experience and growth impact for your business.

Request-to-decision time: How long does it take to complete the process from when the business buyer starts the registration process until a credit decision is made? The faster this process, the better the customer experience.

Automation rate: What percentage of decisions are made through an automated process, without the need to involve a person to review the information and make a manual decision? The higher this percentage, the fewer operational people you will need to do this work and hence the more cost-effective the solution is.

Acceptance rate: What percentage of business buyers are you able to accept for net payment terms? Subject to a maximum acceptable loss rate, the higher the acceptance rate, the better the customer experience and the growth impact for your business.

2: Credit limit management

The second core element of offering payment terms is managing credit limits: keeping track of the amount of credit you are extending to each customer. Get it wrong and you could lose track of how much risk you're taking on.

Key points:

- **Check credit limits in real time**
- **Keep track of open invoices and new purchases**
- **Make sure that returns are reflected**

Managing a buyer's credit limit

Once you have approved a business buyer and assigned a credit limit, you need to manage that credit limit.

You need to check new transactions against a business buyer's available credit limit in real-time and you need to place a hold on their available credit limit once the buyer has confirmed their purchase.

The available credit limit is the amount of credit that the buyer has not yet used. For example, if a buyer has a credit limit of €25,000 and they have €10,000 of open invoices, their available credit limit is €15,000. If the buyer then places a purchase for €5,000, a hold of €5,000 is placed on the buyer's available credit limit, which then drops to €10,000.

Buyer credit limit		Buyer credit limit		Buyer credit limit
€ 25,000	=	€ 15,000	=	€ 10,000
▼ -€10,000 of open invoices		▼ -€5,000 of new purchase		

After authorising a transaction and before shipping the order, you need to do a further fraud check, particularly around the shipping address. If the shipping address is different from the business's registered address, this might need to be investigated.

When the order has been shipped and the final invoice has been issued, you need to replace the hold on the buyer’s available credit limit and book the actual invoice amount against their available credit limit.

Should the buyer decide to return all or part of their order, this also needs to be reflected in a buyer’s available credit limit so that the buyer can re-use their available credit limit for further purchases.

3: Payments and collections

Making sure you get paid is arguably the most important — and often the most difficult — aspect of running a business. Being more efficient here can be the difference between success and failure.

Key points:

- **Automate reconciliation**
- **Manage late payments**
- **Adopt a collections strategy**

Managing your payments and collections process

Once an invoice is due, you need to collect payment from the buyer. You need to remind them before and after an invoice due date that a payment is due.

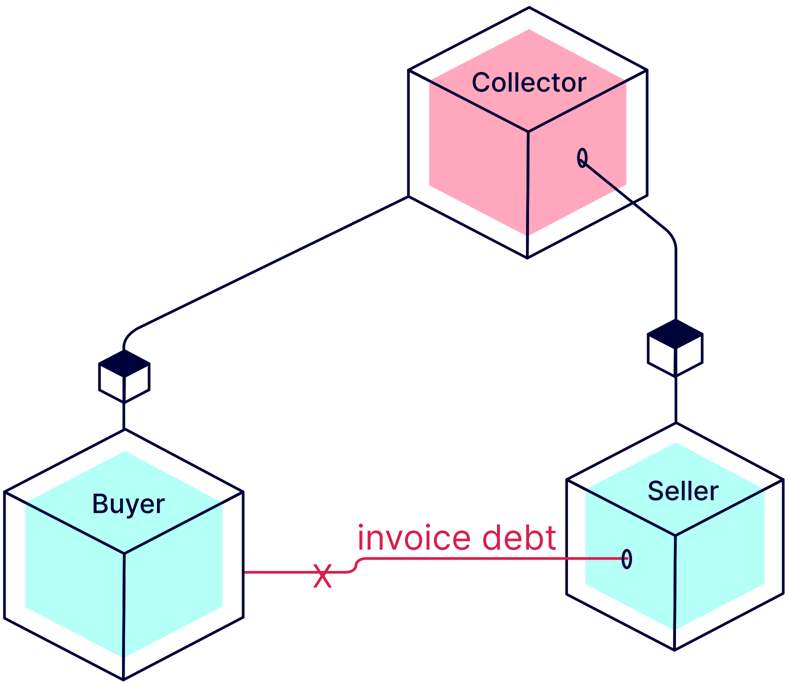
You need to give the business buyer different payment options for paying their invoice. Businesses typically like to pay their invoices using a bank transfer, but there are different ways to do this. It could be a normal, manual bank transfer, but open banking account-to-account transfers are also increasingly popular, and of course, there are the SEPA Bank Transfer and SEPA Direct Debit.

Once a buyer has paid their invoice, the payment needs to be reconciled with and applied to your open invoices. For most payments, this might be a straightforward process, but there could be cases where the buyer has paid too much or too little or did not add their invoice number to the transfer details etc.

This will make it hard to automate the reconciliation process. Roughly half of all B2B invoices are paid late and around 10% are written off, according to Atradius. Chasing overdue invoices and sourcing finance to support delayed payments adds costs and increases the workload for the accounts receivable team.

If a buyer is not paying an invoice, whether this is because they do not have the money or because they do not want to pay, you need to go through a formal collections process, potentially involving a third-party debt collector.

If that is the case, you will need to understand how these collectors are going to treat your customers. Do they have a one-size-fits-all approach or are they able to segment their communication and collections strategy, depending on how important a buyer is to your business?



4: Risk & cash flow management

It's important to understand the impact your buyer credit program has on your cash flow and the risk you're taking. A good strategy will help prevent losses and free up working capital.

Key points:

- **Net payment terms require working capital**
- **Don't waste cash financing receivables**
- **Grow safely with invoice insurance**

Impact of growth and cash requirements

When offering net payment terms to your buyers, you will increase the gap between when you need to pay your suppliers and when you get paid by your buyers.

Increasing amounts of working capital may be required to fund this gap, especially when a marketplace or merchant is growing rapidly. The more you grow, the more cash you will need to have to finance that growth.

Consider a wood manufacturer and the following timeline: The manufacturer buys wood and pays for this on day 1. It takes the manufacturer 14 days to turn the wood into a finished product and to sell the products. When it sells, the manufacturer gives its customer a 30-day payment term. All in all, the manufacturer has a "payment gap" of 30 + 14 = 44 days between spending money on the raw material and receiving the money from his customer. This 44-day gap needs to be covered with working capital. But if the wood merchant wants to grow the business 5x, it will also need 5x more working capital to cover the gap.

Running out of cash is the main reason businesses fail, so it is important to have a solution in place for financing your receivables rather than investing your cash resources into financing your buyers' businesses. There are many ways in which you can acquire capital for growth and it's important to find a financing solution that meets your needs without you having to spend countless hours jumping through hoops and forms to acquire it. Having a solid financing solution should help to keep your business focused on growth - as you can allocate your working capital towards acquiring customers and providing a better customer experience.

Offering payment terms online also brings risks. Even when you've done a solid assessment of your buyers, a lot of buyers pay late or even don't pay at all. The safest way to mitigate this risk is by requiring your buyers to pay in advance, but as you've pointed out before, this will hurt sales.

The safest way to safely offer payment terms to your buyers without taking additional risk is through invoice insurance. Although insurance is likely to bring limitations with regards to who, what, and how much they're willing to insure - invoice insurance will usually cover up to 90% of the invoice when the buyer defaults. Modern invoice finance providers will have APIs in place that allows you to submit invoices without increasing your operational workload.

5: Conclusions and solutions

As you can see, there is a lot that goes into offering net payment terms to business buyers online. Some of the advantages of taking your business online — the ability to reach new customers and scale your business quickly — introduce new risks that require a sophisticated approach to manage properly.

Growth brings its own challenges. The administrative burden on your team can be costly even if the process is well managed and customer relationships can suffer when resources are stretched too thin. At the same time, financing growth can quickly run down your working capital.

Managing all this manually while also ensuring a great customer experience is almost impossible. It takes a huge effort and a well-designed process to get it all right. The best way to make sure you are providing the best customer experience and limiting operational overhead is through automation.

Sprinque aims to help businesses grow safely in a digital world

The good news is that you do not need to build a solution from scratch, yourself. You can opt for a white label solution that gives you advanced buyer onboarding and net payment terms capabilities, without the need for designing, building and maintaining a complex solution yourself.

For instance, as part of our B2B payments platform, Sprinque offers a white label buyer onboarding solution:

- Business buyers can search for their business entity during the registration process, which will pre-populate the registration form with key business information;
- Sprinque performs fraud checks on the business user;
- Sprinque has numerous integrations with credit bureaus and other data sources across Europe to assess the creditworthiness of business buyers;
- You are supported by an experienced team that will guide you through the API integration.

As part of the Sprinque B2B payments platform, we have built a credit engine that can make automated credit decisions in real-time, with high business match and acceptance rates, across geographies and business legal forms.

Sprinque pays marketplaces and merchants directly when we receive the final invoice via API, ensuring you have the working capital to grow your business and you don't have to worry about late payments.

We are building this solution so B2B merchants, platforms and marketplaces don't have to.

If you would like to learn more about our solution, please visit our website www.sprinque.com

Get in touch