

# The digital dilemma

Can businesses balance risk and innovation to transform B2B payments?



# Is change in chains?

Businesses want to change the way they make payments. They want innovation, they want to offer something new to customers and suppliers, and they want to shake up an area of their business where old methods and methodologies, like cheques and BACS payments, have been a fundamental part of how they pay for far too long.

## The problem is they're not doing it.

Despite all the evidence that payments are under pressure in a changing business environment, risk aversion and complex systems are stymieing modernisation efforts. And while businesses themselves try to take a new, digitally-led and wholly modern approach to payments, supply chain problems and legacy supplier cultures are keeping any form of payments transformation at bay.

In short, they're finding it hard to think like a bank, with one eye on conservatism, security and risk management, while acting like a consumer, imbued with innovation, new ideas and faster, tech-led ways of doing things.

New research from Optal takes a look at this payments problem, investigating what's at the root of the issues businesses are experiencing. Looking at how they can foster a culture of improvement and identify quick, meaningful wins to shift the story.

## We discovered that:

### 70%

of businesses are keen to explore opportunities for revenue generation and incentives, such as virtual cards, that also encourage suppliers to use new payment methods

### 71%

agree that better visibility of payment data and processes would reduce overall financial risk for their business

### 63%

say that risk sensitivity is preventing innovation at pace

### 73%

say reducing security risk by using third-party services represents the biggest opportunity for using new B2B payments with their organisation

### 53%

lack a clear strategy on payments efficiency to help change processes

It's a mixed picture of challenge and opportunity, with the former having too much influence over the latter. If businesses want to unlock the power of payments they need to reverse that dynamic, and change the way payments work for good.

# The data in detail

We worked with the London-based agency Octopus Group to survey 204 businesses about their current payment processes and their attitudes towards alternative payments, consumerisation (adoption of consumer technologies), and risk.

Respondents were sourced from key industries, including Insurance, E-retail, E-marketplace and Retail; and from companies with between 100 and 50,000 employees.

## Fear and friction

### Let's start with a positive.

By and large businesses recognise that there are benefits to be had by transforming their payment systems. And with 70% of them keen to explore more innovative payment formats like virtual cards, there's a general enthusiasm for innovation. They also see the benefits that payments innovation can deliver in terms of risk reduction (71% agree), and will be proactive about offering preferential terms to key suppliers to reduce risk (72% agree).

It's why 47% of respondents to the Optal survey said that supplier payment systems have experienced some level of operational change as a result of digital transformation, and 40% have seen change to their customer payment services.

However, that still leaves a majority of businesses seeing no meaningful operational change to critical payments systems, missing the chance to realise the benefits they seemingly know are available in payments innovation.

According to the research, there are two key factors behind this: complexity and risk aversion.

## 1. Complexity

The first problem preventing payments innovation in businesses is the complexity of the systems and processes they're up against.

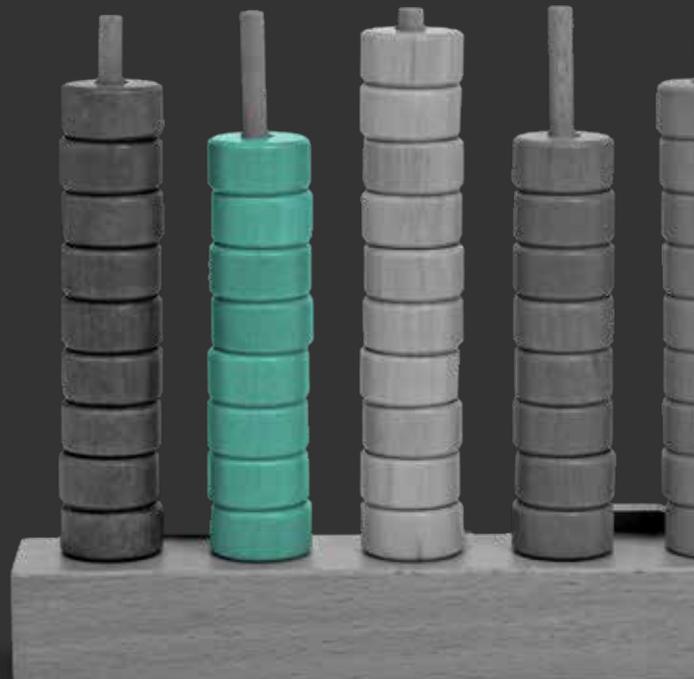
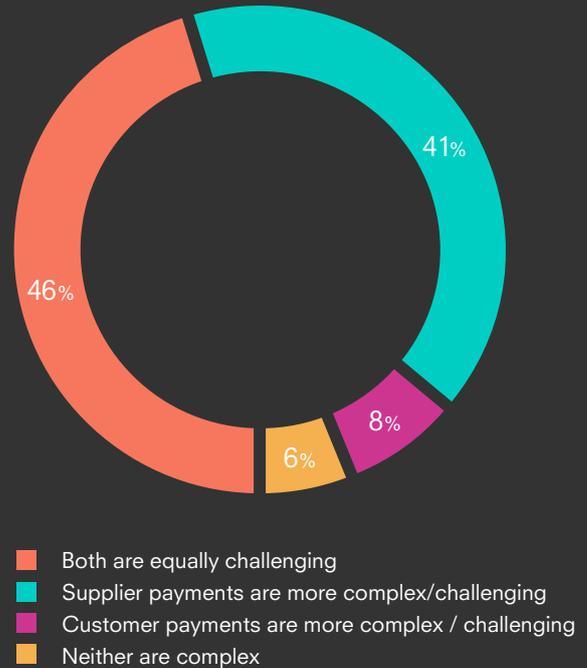
While businesses want to bring more of a consumer mindset to payments through automation, speed and efficiency, they know it's not easy. *Figure 1* shows that businesses are overwhelmingly more likely to see supplier payments as the more complex environment they have to deal with.

And this complexity is proving to be a killer for the kind of innovation that will bring supplier payments into line with consumer, characterised by greater speed, accuracy and efficiency. Almost two thirds (62%) of businesses think that consumer services are ahead of B2B (21% say significantly ahead), and a further 46% of them attribute the reason for that to the complexity of B2B payments.

At the root of this are concerns around high DSO (days sales outstanding) levels and how this will invariably impact business cash flow.

Figure 1

### Environment most complex & challenging for organisation (Suppliers vs Customers)



## 2. Risk aversion

The second challenge for businesses is the high levels of risk sensitivity that are preventing innovation at pace in payments for 63% of businesses (*Figure 2* shows how this breaks down across our surveyed industries).

While risk aversion is generally a positive trait – particularly in a business environment where fraudsters targeting data are everywhere – there are times when an overly cautious approach does active harm to how the business works and how it might improve. *Figure 3* expands on this, showing attitudes to risk across sectors, and how businesses balance risk and progression.

Figure 2

# 63% agree

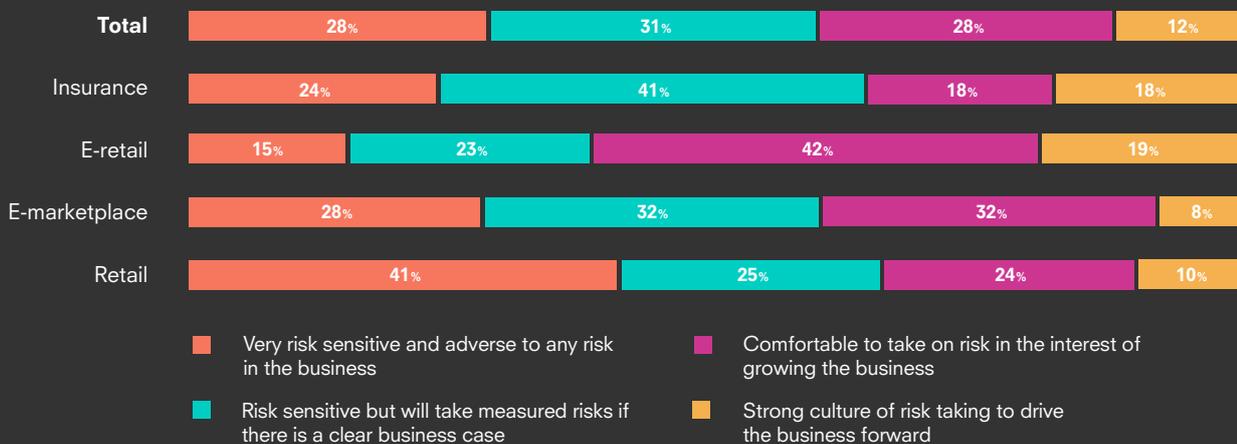
**“The levels of risk sensitivity in our business prevent us from innovating on payment process at pace”**

Insurance	E-marketplace
<b>63%</b>	<b>80%</b>
E-retail	Retail
<b>62%</b>	<b>61%</b>

How would you describe your company’s overall attitude to risk sensitivity (in terms of investment and growth), and how would you then describe how the finance function differs in approach, if at all from this?

Figure 3

### Company’s attitude to risk sensitivity



There's some logic to the numbers here. Retail is notably a sector undergoing major disruption and uncertainty, so a higher than average level of risk aversion is understandable. On the other side of that coin, E-retail is a growing and evolving area, where it's comparatively easy to push and try new things. While insurance firms will accept a bit of risk if they can be relatively sure it'll be beneficial overall.

So far, it's working according to type. But businesses also say that innovating payments can actually prevent their exposure to risk, and 71% say that better visibility into payment data would reduce financial risk. Should they be asking if innovation risk aversion is actually creating risk elsewhere?

The issues that are preventing innovation in payments are understandable. Complex payments systems are a hard nut to crack and it's tough to know where to start. A mindset that prioritises the avoidance of risk isn't easy to change – even when it creates problems, rather than solves them.

But what happens when complexity and risk begin to have a detrimental impact on how the business works, and actively hinders its attempts to become more consumer-like in the way it pays?

# 71%

say that better visibility into payment data would reduce financial risk



## Old payments in modern business

The fact that businesses want to change the way they pay suppliers demonstrates that they know current methods aren't up to scratch for modern business. Consumerisation is on the agenda, even if the way to the top is a little trickier than planned.

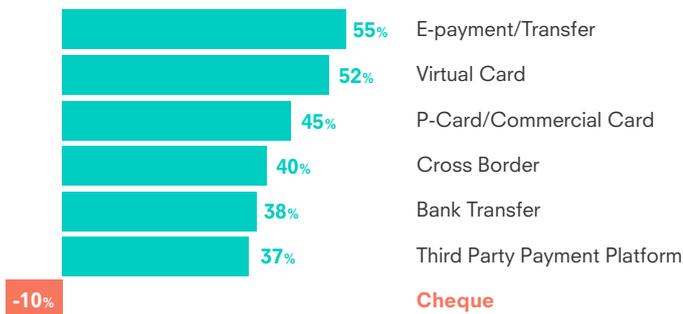
The trouble is that despite the problems encountered by traditional (or in some cases legacy) payment methods, their popularity remains. With 90% of survey respondents using bank transfer (BACS, CHAPS or Faster Payments) and a further using 76% E-payment (credit, debit, ACH, etc.) or transfer. And, startlingly, given that they weren't supposed to exist after 2018, 44% still use cheques (rising to 61% in insurance, where there really does seem to be a paper problem).

While the direction of travel presents a far rosier picture (Figure 4), businesses that wish to adopt a consumer-style payments mindset should be cognizant of potential roadblocks and the damage that current methods could be doing to supplier payments today.

Figure 4

### Planned increase/decrease in payment methods

Whilst bank transfer is the most popular methods (90% using), just 38% plan to increase their usage of this. Of those using virtual cards, 52% plan to increase usage.



## Demand from supply

According to our research, 45% of businesses think that their payment services are innovative. However, just 15% say the same about how they service and support their suppliers, with 60% saying there's either room for improvement, that the business is lagging, or in urgent need of development.

What's clear from this is that there has been a level of innovation in payments, but it's not enough to substantially change things for the better. Or to bring about that consumer payments mentality businesses need.

Businesses are held back by what looks like a legacy supplier culture, characterised by 60% of respondents suggesting that manual processes are still a challenge in payments. *Figure 5* shows that widespread improvement of legacy payment systems is needed across a range of areas if they're going to be fit for the future of payments.

Part of the challenge is one of strategy. While 53% of businesses have made improvements to supplier payments in the last year, 60% say improvement is still needed if they're going to meet future business goals. And when they're asked about what are the most challenging aspects of payments modernisation, most point to either automation or intelligence.

Of course, this needs attention. Businesses need a payments strategy that will change how they do things in the long term. But they also know that time is not going to stand still. So, there's an equal need for some quick wins that will bring the benefits of better payments into their operations today.

On a scale of 1-10, where 1 represents no improvement needed and 10 represents significant improvement needed to be fit for the future, how would you rate each of the following aspects of your payment processes?

Figure 5

### Areas needing significant improvement to be fit for the future

Anyone selecting 7, 8, 9 or 10 on 1-10 scale rating



## Quick wins, long road

The businesses surveyed by this report seemingly have made moves to change and improve their payment systems. They're moving towards that consumer way of doing things that they know is right for their business. However, there's always going to be that desire to think like a bank, and maintain the risk averse attitude that at best balances and at worst stifles innovation.

Accordingly, the best approach to balancing those two priorities is to focus on where payments innovation benefits security and lessens their exposure to risk. *Figure 6* suggests that this is in the choice of partners they work with, accuracy of where money is going, and secure software solutions.

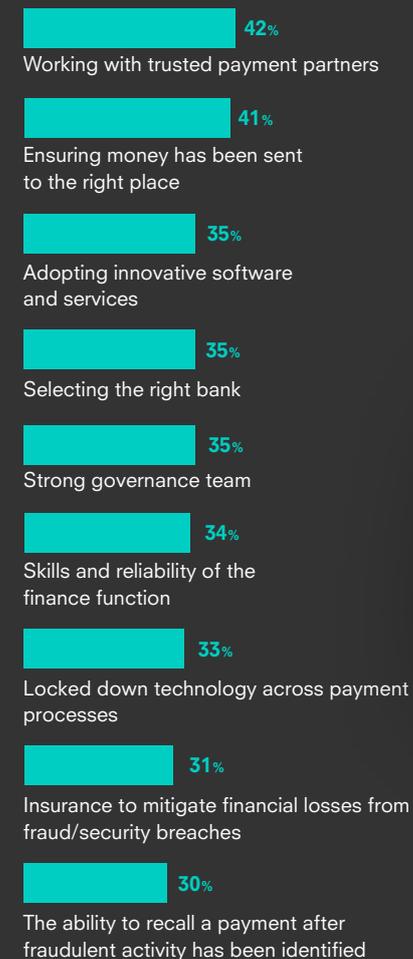
This presents a good short term, tactical direction for businesses that know they need to innovate, but equally know they need to do so with one eye on risk. By finding the right partner with the right software, there'll be an almost immediate boost to both how supplier payments work, and how much risk the business is exposed to through payments.

The second part of the job is a more strategic look at how payments can be improved over the long term, and where the biggest opportunities are. *Figure 7* (see overleaf) shows that the most prevalent strategic priorities are in automation, revenue and risk.

What measures do you think represent the best ways of reducing risk [fraud or security breach] in the supplier payment process?

Figure 6

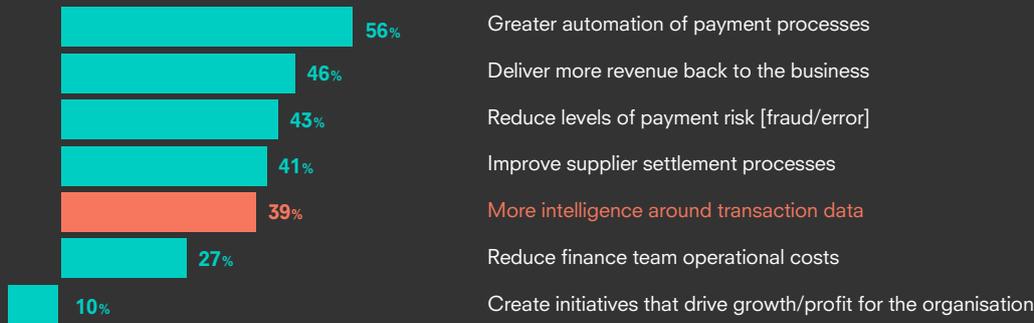
### Best ways to reduce risk in supplier payment process



What are your strategic priorities for 2020 regarding payment processes?

Figure 7

### 2020 strategic priorities regarding payment processes



While Figure 8 shows that by working with third parties who can provide intelligent services, businesses will primarily benefit from better security, insight from payment data and revenue rewards from smart charging systems.

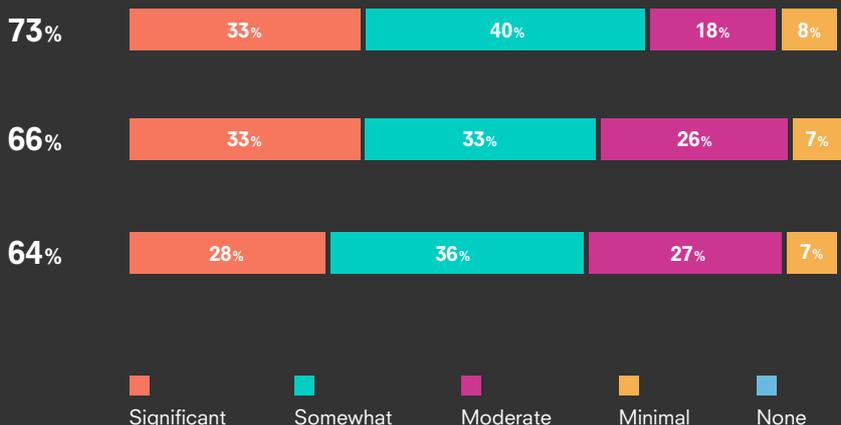
If businesses can find the right payments partners with a track record of success, the benefits are huge. Not only will they make immediate and valuable improvements to payments that mollify their complexity and risk concerns, they will also create long term, strategic business improvements that change the way payments work for good.

What do you think represents the biggest opportunity for using new B2B payment services within your organisation?

Figure 8

### Biggest opportunity for using new B2B payments within organisation

%  
Significant/  
Somewhat



**Security:** Reducing security risk by using smart third-party services

**Data:** Improving data insights from payment data

**Rewards:** Generating revenue from payment services via suppliers through smart charging and incentives

Significant Somewhat Moderate Minimal None

# The hardest road to travel

Figure 9 reveals that all sectors have challenges in terms of payments modernisation. But with clear issues in systems and support for both supplier and customer, Insurance has potentially the trickiest path ahead. For them, the quick wins will be vital in making swift, meaningful improvements, before they move onto greater, more strategic initiatives.

1 in 5 of those working in Insurance, E-Retail & E-Marketplace say that the way they service and support suppliers is in urgent need of improvement

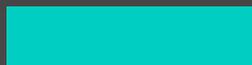
Figure 9

	Payment systems and processes				The way it services and supports customers				The way it services and supports suppliers			
	Insurance	E-retail	E-marketplace	Retail	Insurance	E-retail	E-marketplace	Retail	Insurance	E-retail	E-marketplace	Retail
<b>Innovative</b>	37%	46%	<b>64%</b>	47%	16%	15%	<b>20%</b>	14%	10%	8%	8%	<b>20%</b>
<b>Fit for purpose</b>	35%	23%	12%	25%	35%	31%	<b>40%</b>	31%	20%	27%	28%	<b>37%</b>
<b>In need of improvement</b>	12%	19%	12%	12%	24%	23%	28%	25%	35%	27%	24%	29%
<b>Lagging behind the business need</b>	6%	8%	8%	10%	22%	19%	12%	22%	16%	19%	20%	8%
<b>In urgent need of improvement</b>	<b>10%</b>	4%	4%	6%	4%	<b>12%</b>	0%	8%	<b>20%</b>	<b>19%</b>	<b>20%</b>	6%

While there is no easy way around the challenges ahead, there are many advantages of change – especially that which lessens risk and improves security. Failure to innovate can become a setback, but breaking familiar habits around payment systems and demolishing supplier complexity will put businesses on the right track to achieving their goals.

The road ahead may be long, but shedding legacy payment systems and embracing digitisation with the right partner will enable businesses to develop the agility and flexibility required to meet their goals. Switching to virtual cards is a great place to start – they reduce risk, cut complexity, and turn your payments into a profit centre. Now that's thinking like a bank and acting like a consumer.

Find out what creates poor  
supplier habits and how to  
get past these challenges.



To talk to us about how  
we could add value to your  
organisation, please contact:  
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