

FORRESTER®

The Total Economic Impact™ Of Commercial Credit Card Acceptance

Revenue Growth And Process Efficiencies
Enabled By Commercial Credit Cards

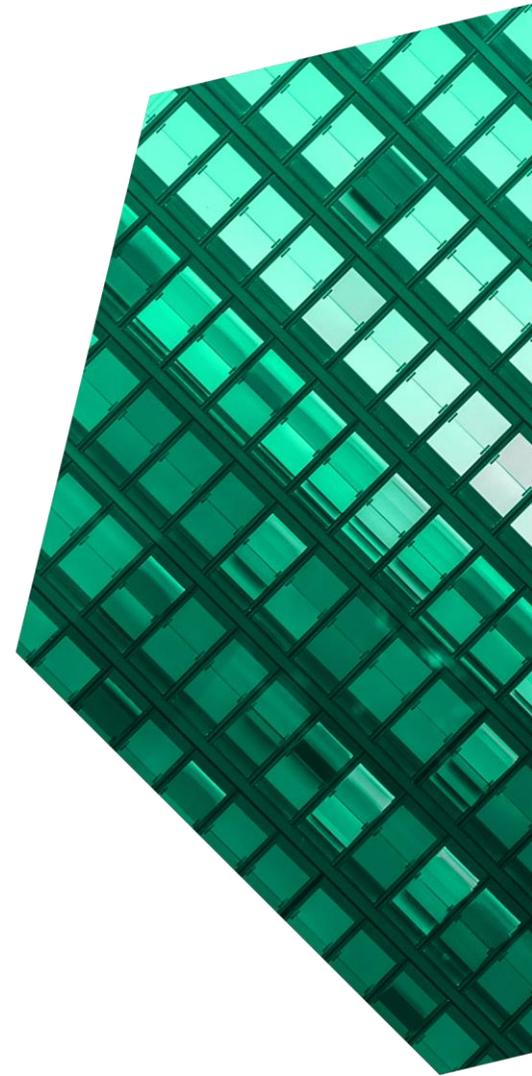
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ABOUT FORRESTER CONSULTING

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The Case For Commercial Credit Card Acceptance

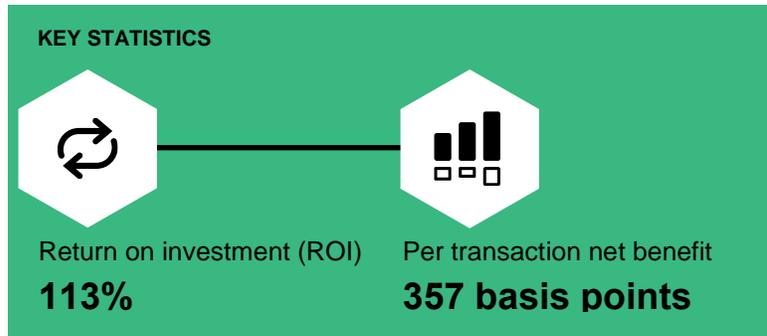
Companies increasingly want to use commercial credit cards to realize the benefits of accounts payable (AP) automation programs for large B2B purchases. However, merchants are reluctant to accept credit cards because of concerns that total costs exceed the benefits. This study found that accepting commercial credit cards delivers a positive economic impact of 357 basis points per transaction.¹

Visa commissioned Forrester Consulting to conduct an independent Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) companies may realize from commercial credit card acceptance for B2B transactions. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of commercial credit card acceptance on their organizations. All references to “credit cards” in this study refer to commercial or virtual cards for B2B transactions.

To better understand the benefits, costs, and risks associated with this investment, Forrester conducted a double-blind survey of 153 decision-makers from merchants with experience accepting commercial credit cards and interviewed five more. For the purposes of this study and financial modeling, Forrester aggregated the experiences of the interviewees and survey respondents (under complete research and editorial independence) and combined the results into a single [composite organization](#) that earns \$5 billion in annual revenue and has an average transaction value of \$5,000. The study results do not change if the average transaction value is assumed to be larger or smaller, as long as all other assumptions are held constant.

SUMMARY OF KEY FINDINGS

For the composite organization, investment in commercial credit card acceptance delivers an ROI of 113% and 357 basis points (BPs) of net benefits per transaction over a three-year period. (See the Endnotes section for more about basis points



calculations.) This justifies setting aside a prior reluctance to accept credit cards.

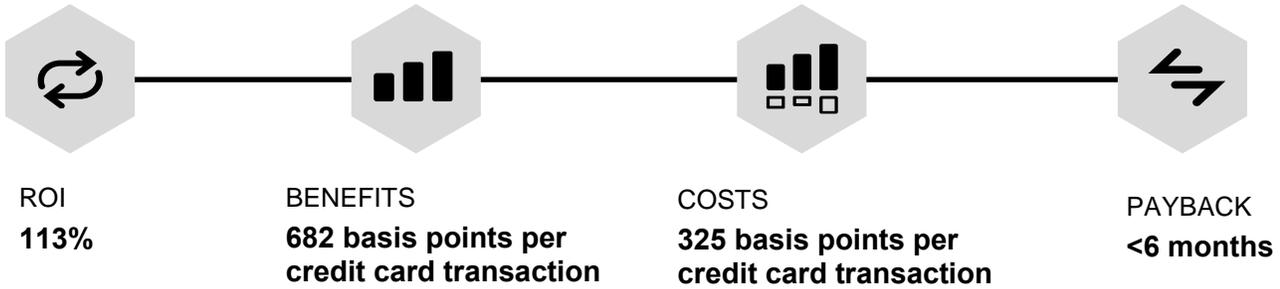
The benefits total 682 basis points per transaction. This is collectively driven by these four benefits:

1. Revenue benefits (e.g., protection and growth) deliver 318 basis points per transaction.
2. Increased receivables collection delivers 334 basis points per transaction.
3. Decreased days sales outstanding (DSO) is worth 2 basis points per transaction.
4. Process improvements result in 29 basis points per transaction.

In addition, customers of companies that accept credit cards are 33% happier based on the companies' Net Promoter Scores.²

The costs associated with card acceptance total 325 basis points per transaction, and they are primarily driven by:

1. Credit card fees of 313 basis points per transaction.
2. Implementation and ongoing program costs of 12 basis points per transaction.



CHALLENGES

Prior to accepting credit cards for B2B transactions, the interviewees’ and respondents’ companies accepted a range of payment methods, and the most prevalent were Automated Clearing House (ACH) payments and checks. These payment methods created various difficulties, and they did not meet customers’ increasing desire to pay with credit cards.

The organizations struggled with common challenges, including:

- **Manual processes were time-consuming and costly.** Many payment-related processes were more difficult with other payment methods compared to credit cards. These included activities such as payment reconciliation, exception handling, and debt collection.

“Cash application is much easier when someone pays with a credit card.”

Cash manager, healthcare

- **Customers wanted to pay with credit cards.** There was increasing demand from customers to pay using credit cards. Reasons included the desire to participate in points/rewards schemes, simplicity for the payer, and security. Some customers would look for merchants that allowed them to use credit cards if the existing merchant refused.

“There is a security element that gets people to want to pay with credit cards.”

Treasury manager, business services

- **The work-from-home model of the COVID-19 pandemic complicated accounts payable.** Many companies implemented work-from-home models due to the COVID-19 pandemic in 2020. This made it very difficult for companies that usually paid their bills with checks to cut and post them. Centralized ordering and paying in a distributed, work-from-home model also became more complicated compared to giving employees physical or virtual credit cards they could use from their home offices.

BENEFITS AND COSTS

Quantified benefits. Risk-adjusted present value (PV) quantified benefits for the composite organization include:

- **Revenue-related benefits deliver 318 basis points per transaction.** Adding credit cards to the mix of accepted payment methods improves the composite organization’s revenues in two ways: revenue protection and revenue growth. First, a portion of customers believe it’s very important to switch to credit cards from other payment methods. They view credit cards as easier or more secure, they want to participate in rewards program, or they want to take advantage of credit card float. A portion of these payers feel

so strongly that they are willing to move to a new supplier of comparable products/services that accepts credit cards if their current supplier does not. Second, adding credit cards generates additional revenue in several ways. New customers who want to pay with credit cards can be added, average transaction values may increase, and there may be more frequent purchases. That's very important for merchants with recurring-revenue business models.

Average incremental revenue from commercial credit card acceptance (reported by survey respondents):

2.8%

- **Increased past-due receivables collection increases result in 334 basis points of benefit per transaction.** Better debt collection is a substantial benefit to merchants in several ways. Although there can be some chargebacks, purchases completed with a credit card are almost always paid out, so those transactions are not susceptible to becoming past due or going to collections. Companies can collect a greater proportion of past-due purchases made with other payment methods that go into a collections

process with credit cards than by sending them to third-party collections agencies. Additionally, credit card fees are typically lower than the fees and revenue share that collection companies charge. Finally, when a customer does pay, their line of credit is freed up to make new purchases, which can increase revenue.

- **Decreased average DSO is worth 2 basis points per transaction.** Companies receive payments faster from transactions completed with credit cards than from those completed with other payment methods. Despite the current low cost of funding and companies offering other early-payment incentives, there is an incremental benefit from reducing DSO with credit cards. Additionally, when a customer pays faster, it frees up their line of credit to make additional purchases, which can increase revenue.
- **Payment-related process improvements result in 29 basis points of benefit per transaction.** Purchases completed with credit cards are more efficient to manage than those completed with other payment methods. Areas of improvement include transaction-level processes (e.g., payment reconciliation) and account-level processes (e.g., setting up a new customer). Treasury functions and payment-related call

“ For the longest time, because we are so large, we almost always said no to credit cards. The landscape is changing in terms of how customers want to pay, and we have to adjust. ”

— Credit risk manager, industrial products

center inquiries also improve. Additionally, lower error rates create fewer exceptions and other problems that increase manual effort. For many companies, salespeople are responsible for collecting on their accounts, so freeing up their time can result in more sales.

Percentage of survey respondents who prefer the Visa network to other commercial credit card networks:

76%

Unquantified benefit. One benefit that was not quantified for this study is:

- **Customers paying with credit cards are nearly 33% happier than those using other payment methods.** Fifty-three percent of the survey respondents said they use Net Promoter Score. They also reported that adding commercial credit cards as a payment option increased Net Promoter Scores on average from 41 to 67. This benefit underpins the enhanced revenue benefit.

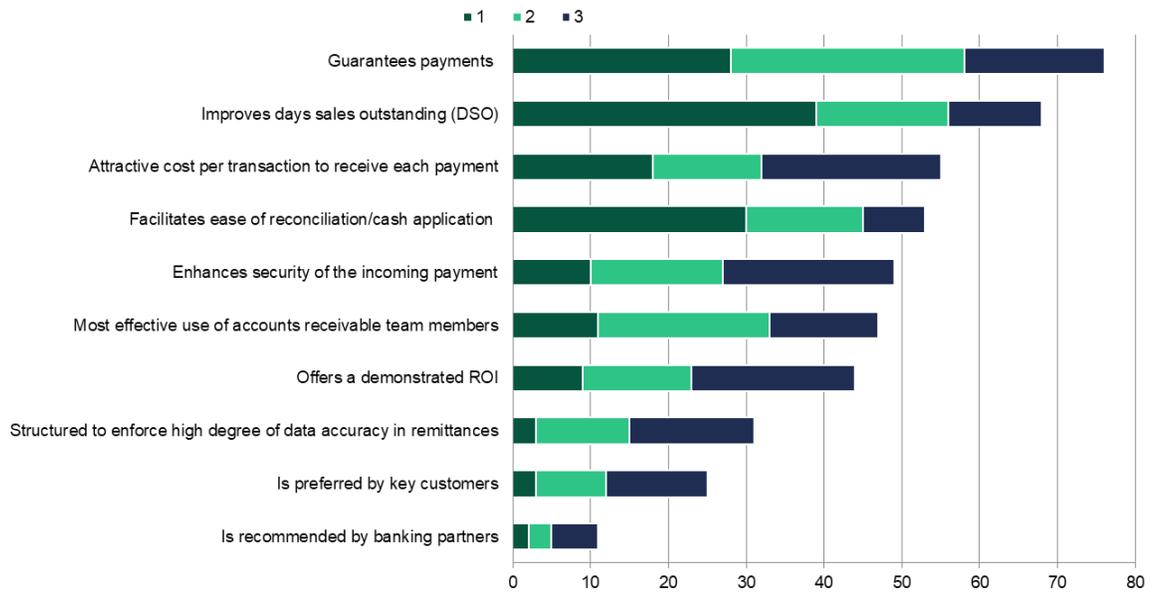
Costs. Risk-adjusted PV costs include:

- **A 3% fee is applied to all credit card transactions.** Transactions include those that transitioned from ACH and check, incremental revenues linked to credit card acceptance, and past-due ACH and check transactions that are collected using credit cards. ACH and check fees that would have otherwise been paid are deducted from the total.
- **Implementation and other ongoing costs.** For the composite organization, it takes three FTEs five months to implement commercial credit card acceptance. There are also some initial and ongoing professional services. Other internal, ongoing process, management, and technology costs equal 0.1% of all payments accepted through credit cards.

The financial analysis based on the interviews and survey found that a composite organization experiences benefits of 682 basis points per transaction versus costs of 325 basis points per transaction, adding up to a net benefit of 357 basis points per transaction. Over three years and with 488,000 credit card transactions, the composite organization realizes an ROI of 113%.

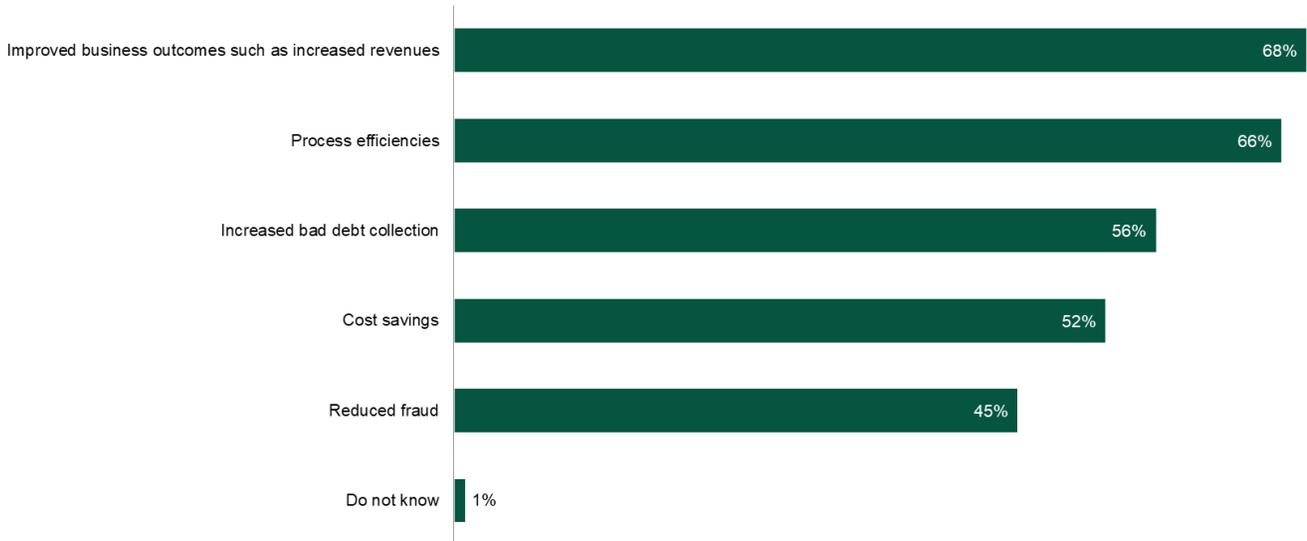
This is just an excerpt from the full study conducted by Forrester Consulting on behalf of Visa. To access the detailed financial model and analysis of benefits and costs, please get in touch with [Shawn Thomas](mailto:shawthom@visa.com), Sr. Director B2B Acceptance, shawthom@visa.com.

“What are the three most important factors you considered when you decided to implement commercial credit cards acceptance?”



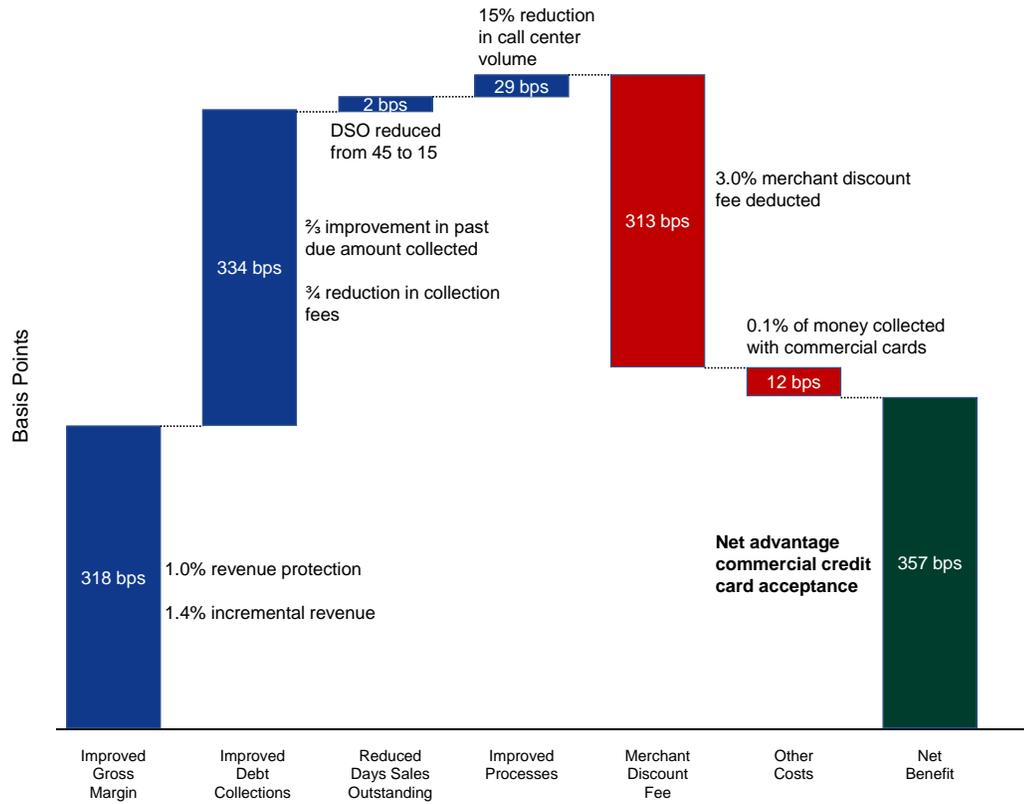
Base: 153 commercial credit card users
 Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, December 2020

“Which of the following benefits have you experienced as a result of instituting commercial card acceptance?”

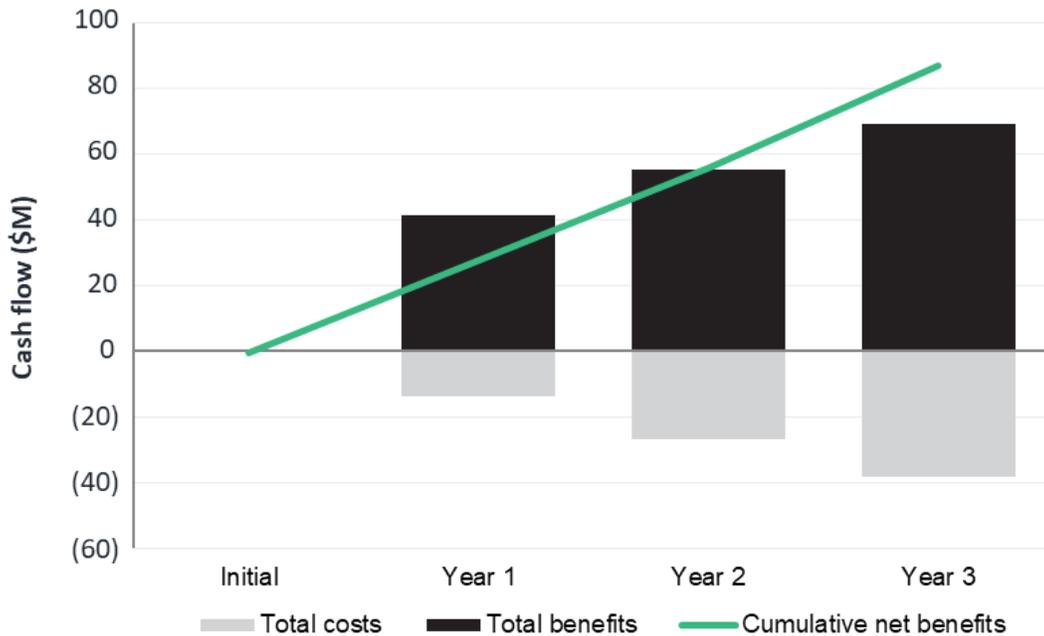


Base: 153 commercial credit card users
 Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, December 2020

Commercial Credit Card Acceptance Benefits And Costs Versus Other Payment Methods For A \$5,000 Transaction



Financial Analysis (risk-adjusted)



Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

TOTAL ECONOMIC IMPACT APPROACH

Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.



PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.



NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.



RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.



DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.



PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews and survey, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in commercial credit card acceptance.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that that commercial credit card acceptance can have on an organization.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Visa and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in commercial credit card acceptance.

Visa reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

Visa provided the customer names for the interviews but did not participate in the interviews.

Forrester fielded the double-blind survey using a third-party survey partner.



DUE DILIGENCE

Interviewed Visa stakeholders and Forrester analysts to gather data relative to commercial credit card acceptance.



CUSTOMER INTERVIEWS AND SURVEY

Interviewed five decision-makers and surveyed 153 decision-makers at organizations accepting commercial credit cards to obtain data with respect to costs, benefits, and risks.



COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewed and surveyed organizations.



FINANCIAL MODEL FRAMEWORK

Constructed a financial model representative of the interviews and survey using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organizations.



CASE STUDY

Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

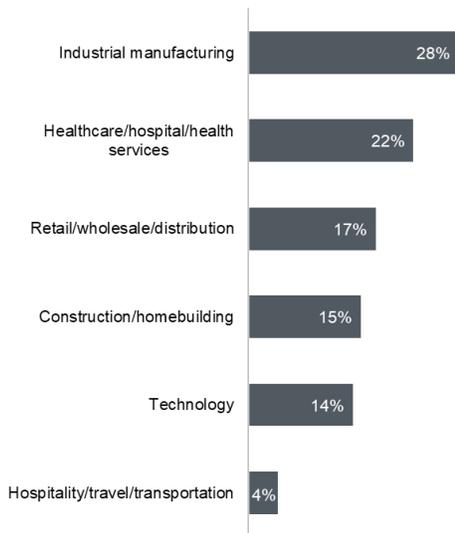
Appendix B: Interview And Survey Demographics

Interviewed Organizations

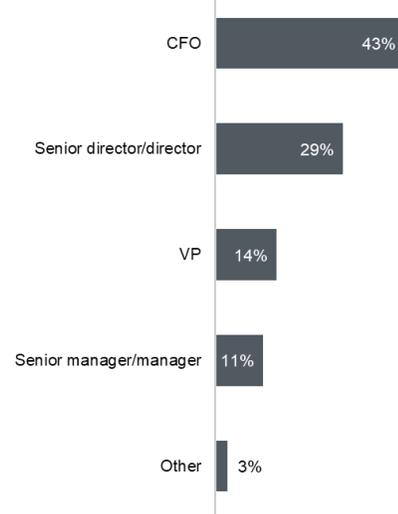
Industry	Interviewee	Business Unit Revenue Average Transaction Value
Industrial products	Credit risk manager	\$10 billion \$500
Manufacturing	Regional treasury manager	\$7.2 billion \$5,000
Healthcare	Cash lead Cash manager	\$5 billion \$5,000
Business services	Treasury manager	\$7 billion \$750

Survey Demographics

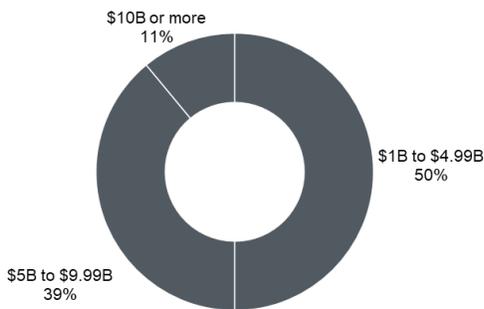
“Which of the following best describes the industry to which your company belongs?”



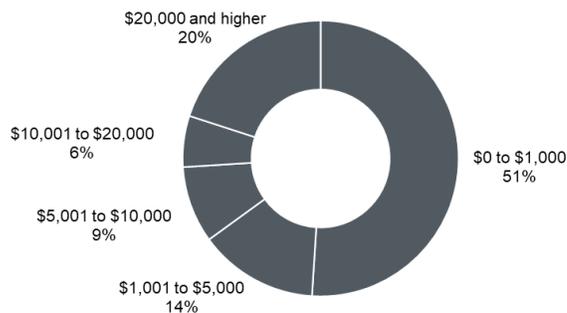
“Which title best describes your position at your organization?”



Annual revenue (USD)



Average payment value for commercial credit cards



Base: 153 commercial credit card users

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Visa, December 2020

Appendix C: Endnotes

¹ A basis point equals 1/100 of a percent, or 0.0001. Forrester calculated basis points by dividing the value of the total risk-adjusted benefit or cost category by the total number of credit card transactions (transitioned [A4], incremental sales [A7], and AR collection [B3]). This per-transaction value is divided by the \$5,000 average transaction value and multiplied by 10,000.

² Net Promoter and NPS are registered service marks, and Net Promoter Score is a service mark, of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.

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