

WHITE PAPER SERIES: MIDDLE MARKET PERSPECTIVE

Commercial Payments

JULY 2017

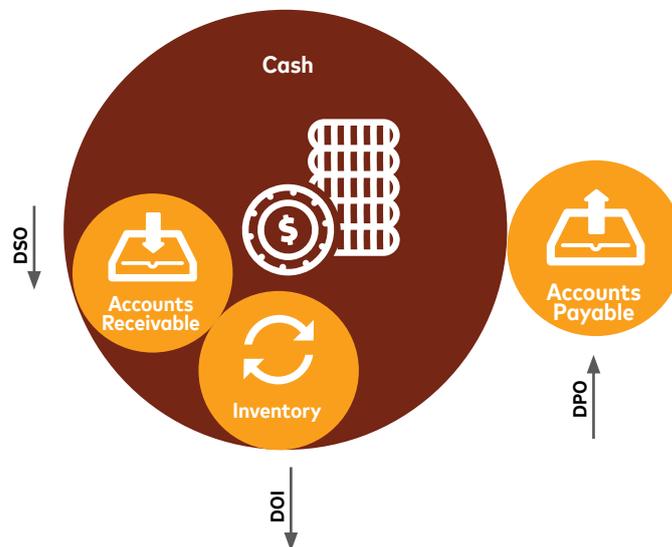


About This Series

Through this series of papers, we examine the dynamic and growing commercial payments sector in Australia. This paper investigates the payment perspectives of the Middle Market businesses, defined as businesses with a turnover of \$5m to \$100m. This segment is of particular interest as it tends to be under-served, which can be partly attributed due to the heterogeneous nature of this segment in terms of their resources, needs and knowledge.

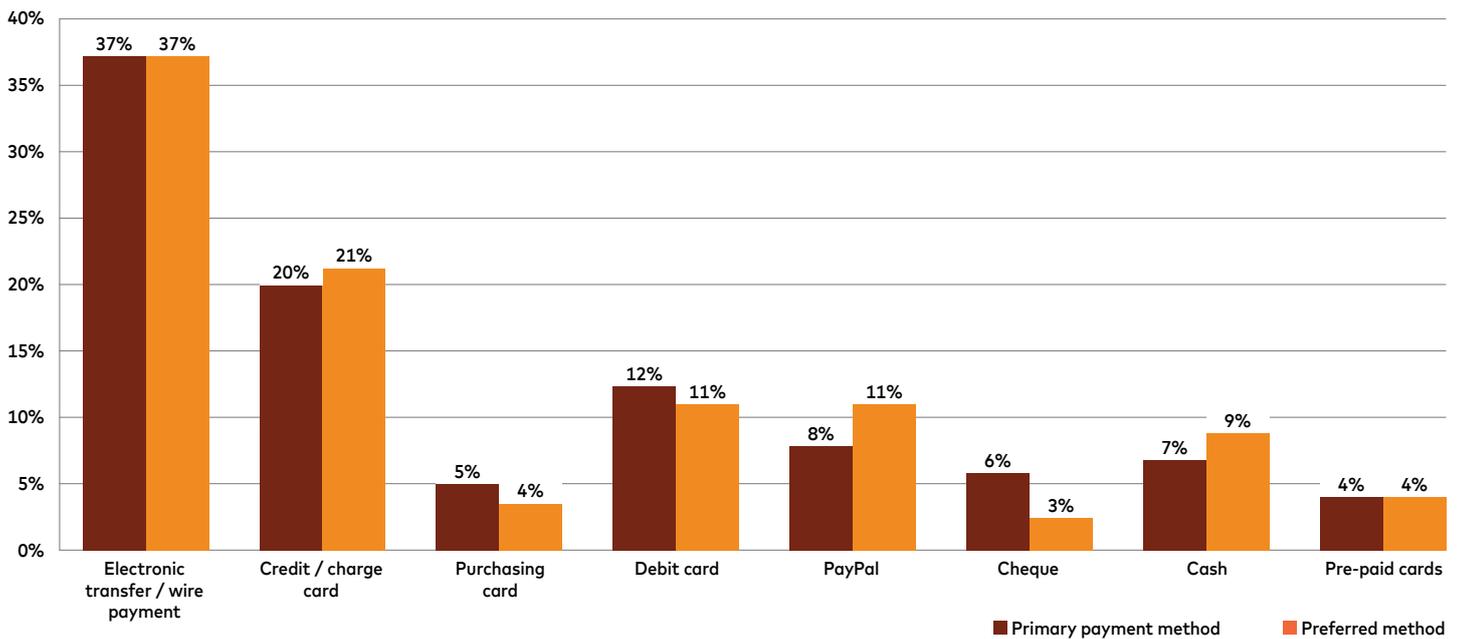
Overview

Despite the wide variation of businesses in this segment, ranging from small enterprises to emerging corporates, research consistently highlighted the importance of removing the administrative burden associated with managing payments. Therefore, any solution provided to this segment needs to save time and/or improve processes. This is usually achieved through integration with accounting systems and is reflected by the increased prevalence of electronic methods of payment. For example, more than three-quarters of businesses reportedly make payments via direct transfer and/or card for domestic payments. However, more than half of the ~400 businesses also still report the use of some cheque payments.



The research also suggests that these businesses are relatively happy with their international payment methods, with 82% of the sample trading internationally, although there is a preference to move further away from cheque payments (often bank draft) towards other means. The two primary cross-border methods are wire transfer 37% and card payments 37% (all forms of card combined).

**What is the primary way your business makes international payments?
How would your business most prefer to make international payments?**

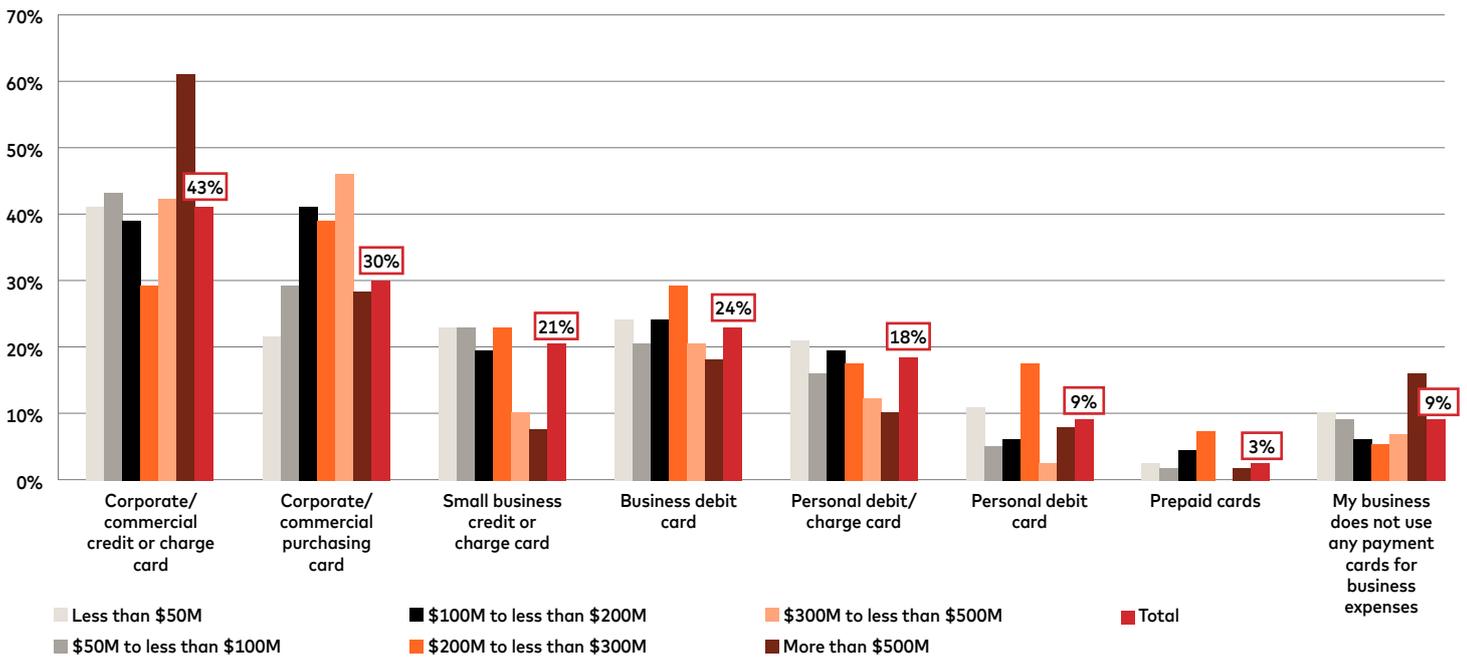


However, as mentioned in the first edition of this series, the use of cards by Australian businesses to pay operating expenses is currently underutilised. While the majority of travel and entertainment expenses are paid by card, other domestic business expenses are predominantly transacted via electronic transfer. The amount spent on cards in Australia (personal plus company cards, debit and credit) is only 4% of the value of direct entry transfers.

While direct entry includes many transfers for which card payment is not possible, the survey of businesses conducted by the RFi Group shows that there is very little card use in many segments where use might be appropriate. For example, over 80% of insurance expenses are paid by electronic transfer and the remainder, in the main, paid by cheque.

3% of the researched businesses report using a commercial credit or charge card, while 30% report using a purchasing card. In large businesses, the reported penetration of corporate cards is 60%, but drops to 40% or less in the Middle Market. Around one in five businesses (across all business turnover categories) are using personal cards for business expenses.

Does your business use the below types of cards for making payments?
By annual turnover

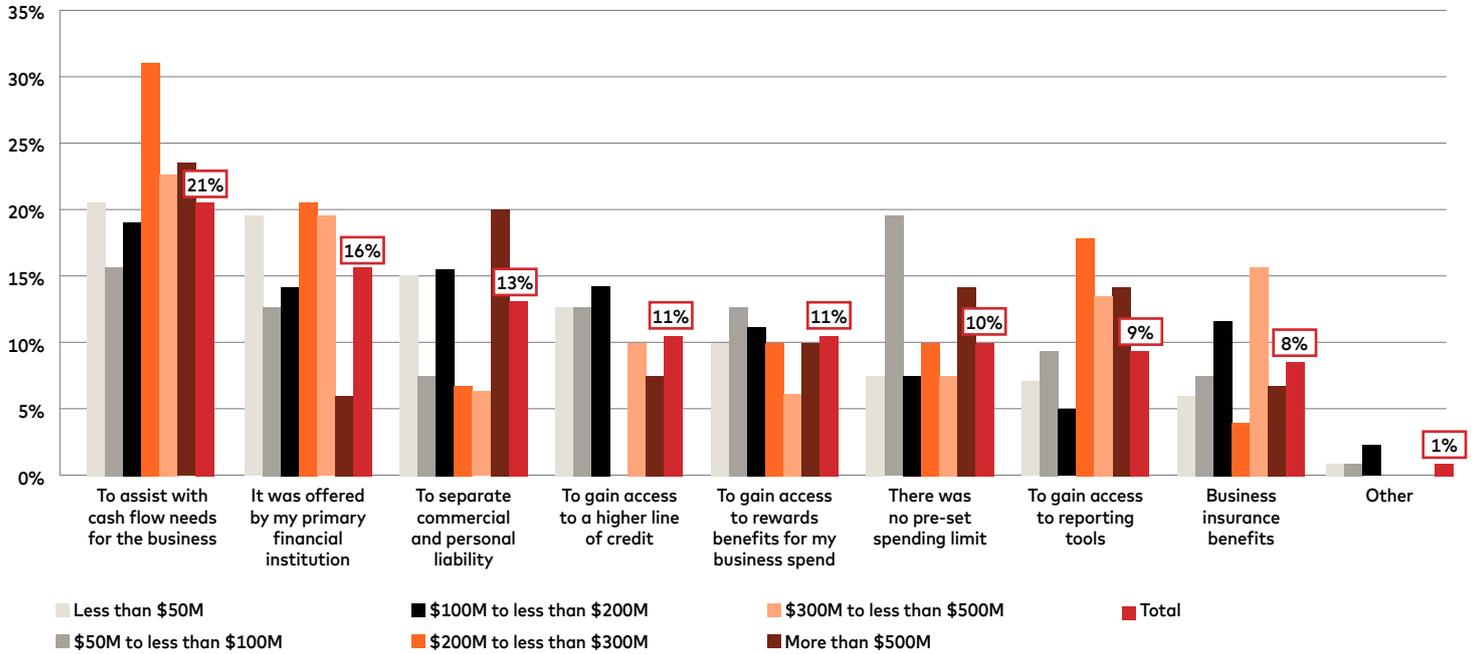


Base 1: All businesses (Feb-16: Less than \$50m: n=252, \$50m to less than \$100m: n=83, \$100m to less than \$200m: n=55, \$200m to less than \$300m: n=41, \$300m to less than \$500m: n=39, More than \$500m: n=39, Total: n=509)

Amongst those that do use commercial credit or charge cards, cashflow is cited as the main trigger, with 21% saying they applied for the product "to assist with cashflow needs for the business".

You mentioned your business uses business/corporate/commercial credit or charge cards.
Which of the following describes why you applied for one?

By annual turnover



Base 2: Businesses that use a corporate/commercial card (Feb-16: Less than \$50m: n=174, \$50m to less than \$100m: n=63, \$100m to less than \$200m: n=43, \$200m to less than \$300m*: n=29, \$300m to less than \$500m: n=31, More than \$500m: n=30, Total: n=370) *Small sample size (n<30); use indicatively

However, the other leading reason quoted was that it had been recommended by their financial institution. With this in mind, it is important to note that when discussing benefits of commercial cards to the Middle-Market, it's not about rewards, but business benefits. Issuers can provide many benefits beyond points and/or rebates, including control and visibility of spending, integration with accounting systems and data-based insights into their business and employee spending. It's then possible to bundle these benefits into a tailored product for the Middle Market.

In summary, Middle Market businesses appear quite satisfied with the payment methods that they are currently using, with the Directly Entry system being the most heavily utilised. These businesses also use a variety of card payments, including both personal cards and commercial cards. Their use remains primarily in the travel and entertainment arena, although there is a growing recognition that other expenses might be cardable.

Furthermore, the size of this opportunity is significant: Mastercard research suggests that there is a \$136b addressable spend in the segment. Moreover, Middle Market companies use their corporate card extensively, spending between \$10,000 to \$150,000 a month. Tapping into that market, with a more tailored offering and a deeper understanding of their needs should be a key focus for issuers keen to grow their share of the Middle Market.

Reasons quoted by respondents as to why they did not use corporate or commercial cards were predominantly around price and their satisfaction with their existing methods and processes. There are also concerns that corporate cards will make it more difficult for them to control/manage the spend of their employees. Many believe that a corporate or commercial card will not suit their needs because their suppliers will not accept it, it may not have the spending limit they require and they will face a surcharge fee at merchants that adds to their cost of doing business.

The Australian market is not unique. Ixaris claims that globally, corporate cards represent less than 1% of commercial payments by value and around 8% by volume. They state the three main reasons that companies are resistant to adopting commercial cards are:

- Worries about economic viability above a certain transaction size
- Concerns about potential abuse if cards are operated with high value limits
- Failure of card models to integrate with e-procurement, or ERP systems that streamline card payments with the Accounts Payable process

In terms of receiving card payments, the Merchant Service Fee and cost of card acceptance are major complaints of business. In the smaller end of the market, PayPal can sometimes offer a more attractive proposition, in that it can actually be cheaper for some businesses (e.g. no monthly fees for the online facility) and it enables card acceptance as well – providing simplicity in a one-stop-shop.

Next in the series: Financial Institution Perspectives

For more information contact us at ask@mastercard.com