**B2B – The Hidden Champion ?**

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Background

Most discussions, most regulations, most conferences, most publications and tweets are around consumer propositions: how people can pay better, have a better user experience, how to improve shopping, how to connect social media to e-commerce, ... That is great and really end-customer-oriented

However, the real business, the most money, the most impactful developments are actually in B2B, at corporates, in government and *business* processes. Here the customer is the treasurer, the procurer, the business user, the government official, the merchant, the service provider, the bank, the SME – and no less important.

The significance of B2B

Indeed, when one takes a step back to have a holistic, structured view of money flows in an economy, one can see that almost everything – except a smaller segment at the end – is all B2B/G2B

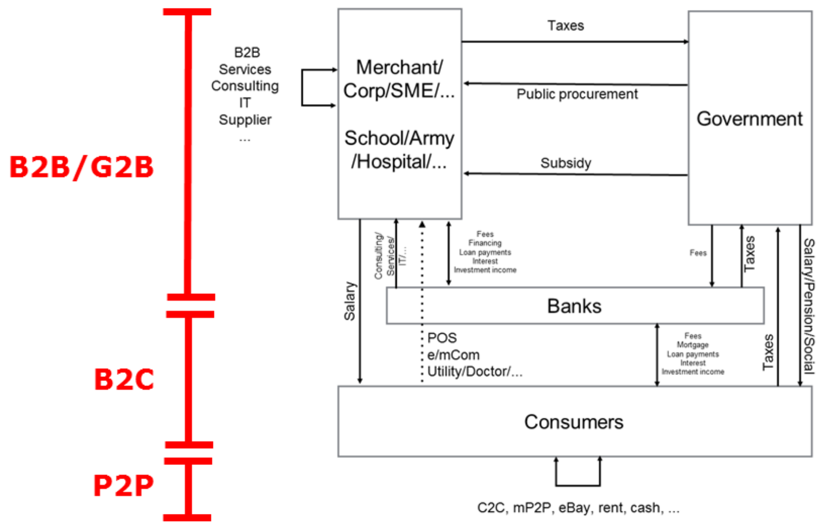


Fig 1: most payment is in B2B/G2B space – with small "exception" of consumer/retail payment at the end – however, we tend often to only look at the B2C/P2P segment. Source: author

This is borne out by the numbers: while most of the transactions may be in B2C, the most value – by far – is moved in B2B. This has been well documented for decades:

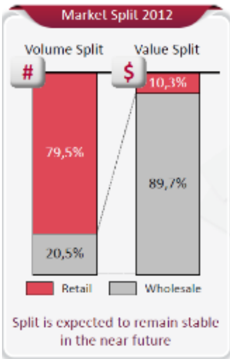


Fig 2: Wholesale payment value much bigger than retail
Source: CapGemini & RBS World Payment report 2014

According to recent studies[1] the global value of B2B payments is ca $120 trillion per year. Based on the same study only 33% of B2B payments were electronic, compared to around 70% for B2C. Thus, there is massive commercial potential in electronifying and optimizing B2B.

Indeed, it has always been a smart strategy to go for the back-end market. A popular anecdote from the days of the US Gold Rush states that the chances of finding gold were very slim. However, there was a very reliable demand for *tools* for the prospectors, for pick-axes, for sieves, for services (from "bath houses" to lawyers and hotels). The real money during the gold rush was made in B2B (*serving* the prospectors), mostly not by the prospectors themselves (who very rarely found gold). The intermediaries, the brokers, the service providers made the commercial killing. Thus maybe we should learn from history and focus on the service provider/B2B industry if one wants to be commercially successful.

<u>B2B in the market</u>

Having seen all this it thus is not surprising that most smart Fintechs are focusing on B2B. Indeed there are many examples of Fintechs that started in the consumer/B2C space but then pivoted to the less crowded, more lucrative and more profitable B2B. This is where the money is, this is where a business case can be justified, this is where the (corporate) customer is willing to pay for services – all unlike as is often the case in B2C.

[1] https://www.linkedin.com/posts/pkriaris_fintech-b2b-payments-activity-6929294014068219904-H5ob/ citing GoCardless


Fig 3: Most Fintechs are now B2B – here is a sample landscape. Source: CBinsights/Kriaris 2022

Despite all of the above it is surprising that banks have typically underserved their B2B clients. Large banks will have provided excellent integrations via large ERP systems to their large corporate customers. But SMEs – who contribute two thirds of national income and more than half of employment worldwide[2] – are left to negotiate FX rates, arrange financing, extend credit limits by sending fax. Thus it is no surprise that smart Fintechs[3] are seeing this massive opportunity to better serve the large, untapped SME market with new innovative solutions. This is sometimes called the "democratization of financial services": not only large banks, large corporates, governments are given modern digital services with user-friendly workflows and GUI interfaces – these are increasingly becoming available to *everybody*, also in the corporate world.

What these innovations in the corporate market are, what some best-of-breed examples around the world are, will be explored in more depth in a future article – and there are some excellent examples[4] also in Turkey - but suffice it to say here that there are many, many topics that are being revolutionized through digitization, electronification, straight-through processing:

[2] https://www.unsgsa.org/speeches/unsgsa-queen-maxima-remarks-g20-side-event-support-msmes-and-women-led-businesses

[3] See, for example, https://www.finextra.com/newsarticle/39399/b2b-payments-startup-topi-emerges-from-stealth

[4] See, for example, Iyzico, Ödeal, Tarfin, Figopara, Architect, etc

- Treasury 4.0
- Payment Factory
- eInvoicing/SCF
- eTax
- Cash forecasting/Liquidity Management
- Novel FX
- Order-to-cash/accounts receivable
- Procure-to-pay/accounts payable
- Alternate corporate finance
- B2B Platforms
- Embedded Finance
- New entrants
- Corporate VAS
- Collections
- Cash/cheque reduction
- Real-time/instant
- End-end financial supply chain
- SWIFT/correspondent banking/future models
- Transaction banking - changes in models and revenues
- Fraud defence (incl B2B identity)
- Risk management
- Corporate cards (incl fleet management)/Virtual cards
- Virtual accounts
- Wholesale CBDC
- Tokenised money/Future of money/Digital assets
- Intraday
- Standardisation
- Cross-border
- RegTech – technology for compliance
- etc

Fig 4: The list of topics for B2B innovation driven by technology, digitization, use of data, regulation and market forces is long

While most of these may not always appeal to the mass media – unlike the latest Blockchain-NFT-hype – many of these solve real problems for real companies and massively improve competitiveness and efficiency.

<u>B2B Example: Invoicing</u>

An example of a supremely unsexy – but highly lucrative – topic is e-Invoicing. The author was part of the Expert Group of the European Commission where we identified that over 50 billion (!) pieces of paper are sent around Europe each year, where a supplier prints out the invoice data (items, bank details, tax details, payment terms, …) from his computer, mails this via post to the client's purchasing department, who open the envelope with the invoice, copy this paper for each of the procurement manager, the accounts payable department, the manager of the department who ordered the goods and several more … who all put their handwritten comments on their paper copy of the invoice, send it around to a few more, annotate the copies a bit more, until finally someone puts a stamp on it and authorizes the payment of the invoice … whereupon all the printed data in the invoice is then re-entered into another computer system (with some mistakes and plenty of delays along the way), to - at last - get the payment made to the supplier … who is regularly scanning his bank accounts to see which incoming payments match (or not) which outstanding invoices. A quite byzantine system which has enourmous costs for companies, governments, SMEs and is clearly hugely inefficient, error-prone and quite mediaeval.

With e-Invoicing (and e-Tax and other affiliated services) – such as have been common practice in the Nordics for decades - the bills and payments are made electronically, everything passes straight through. The banks suddenly have access to new useful data (e.g. how much business their corporate clients make, how many invoices are paid and how many fail) giving them useful credit scoring information, corporates can suddenly use the electronic processes to do reverse factoring thus saving money, suppliers are suddenly paid on time … everybody wins. The friction in the system, which currently helps nobody, is turned into useful value.

In Europe we had to change the law ("equal treatment") to assure that electronic invoices are treated the same as paper invoices, propagate common standards for invoicing, set up stakeholder fora etc to make this topic move. It was a big lift but we are much better now, although there is still a long way to go.

<u>Wider application of B2B and Conclusion</u>

The above is only for a single topic (which should be a “no-brainer” nowadays), and there are plenty more – see Treasury 4.0 where funds are managed electronically (and not imported manually using .CSV files into Excel – as is often still the custom even in larger companies), cash flow predicted reliably, funds used optimally … indeed the main beneficiaries of a very current topic of “Instant payment” are actually not consumers, but businesses (see “The Future Use of Instant Payments – are we investing billions just to do mobile P2P?”[5]) and many, many more examples alike.

Even one of the most iconic consumer brands – Amazon – makes most of its money in B2B:

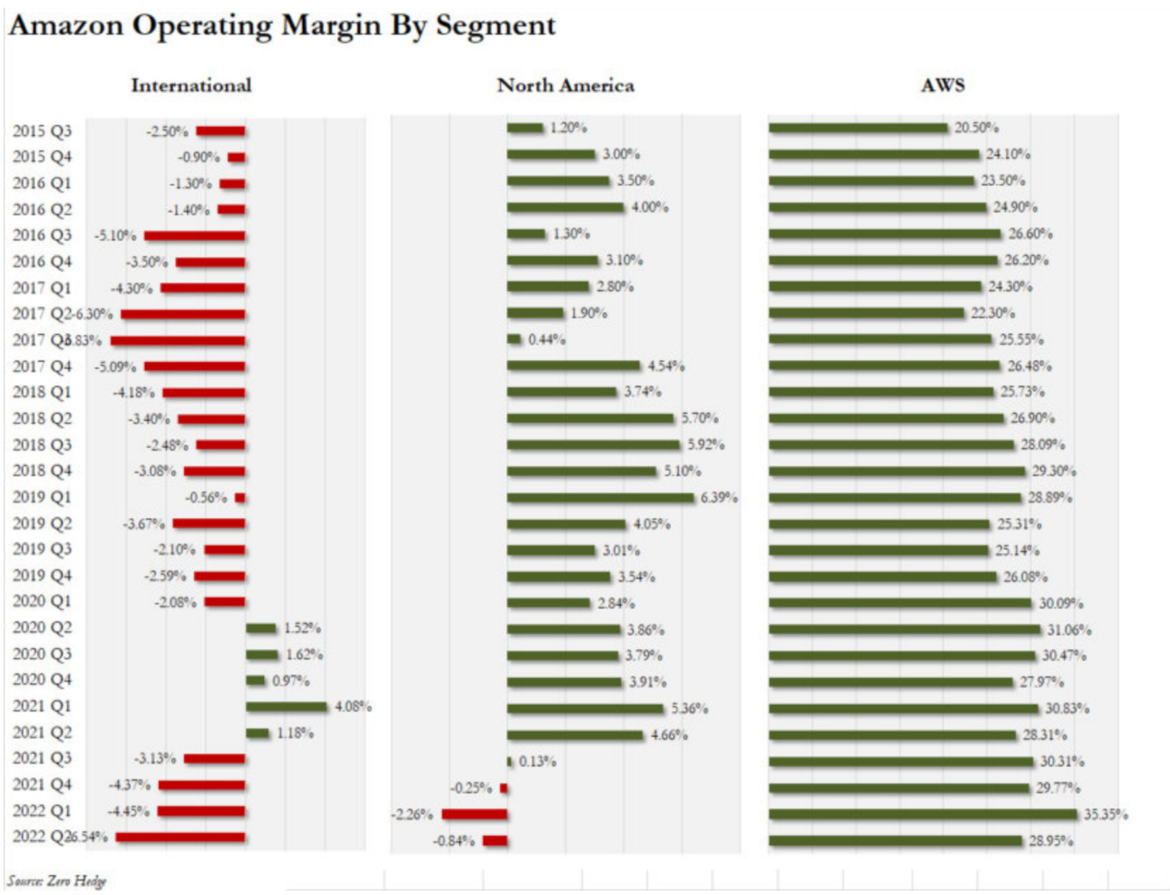


Fig 5: The left two columns show Amazon’s profit in retail (B2C) while the right column shows only one area of B2B (AWS, not even including it fulfilment, platform and other service) – which is consistently much more profitable

[5] Published in “Digital Payments”, Edited by Prof. Moormann, Frankfurt School of Finance & Management, September 2016
also published in Journal of Payments Strategy & Systems, Volume 11, Number 1, Spring 2017, pp. 58-77(20), Henry Stewart Publications
also published in BIT Banking and Information Technology, vol 19, issue 1, March 2018, pp34-50

There is so much potential in optimising B2B that we have set up a conference on this topic in Japan (www.transactioninnovationforum.com), a region which has identified this as a key policy to improve effectiveness in that geography. Maybe one should explore this topic in more depth in Turkey too …

Some of this may sound boring – “corporates”, “B2B”, “invoices”, “factoring”, “treasury” … - but maybe we should be swayed less by what the latest Twitter storm is about, but where the business is !?

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