August 2023

B2B Payments in the Tech Industry Need an Upgrade
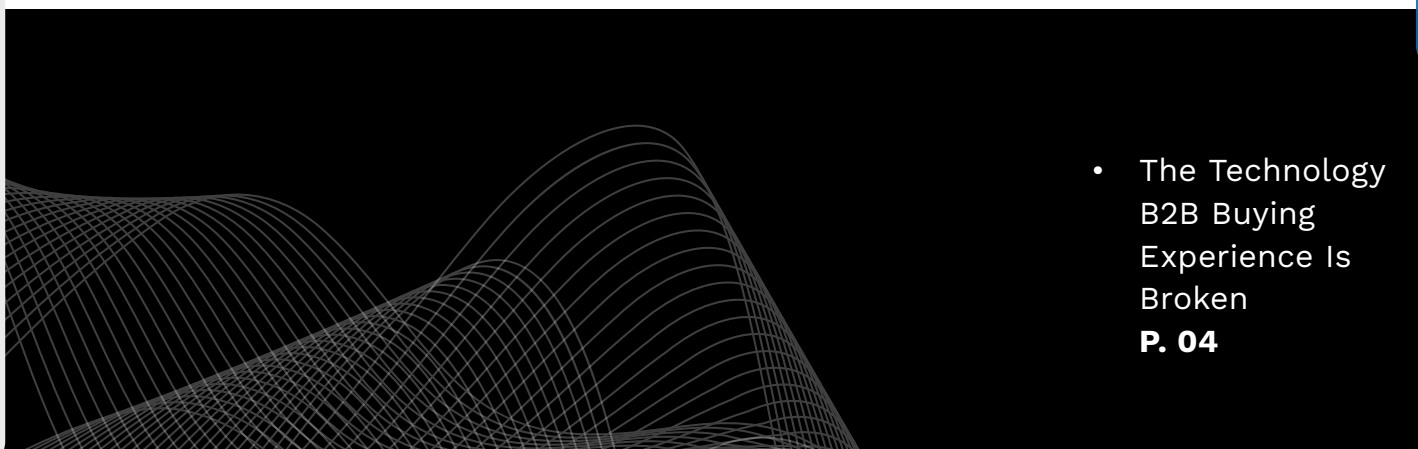
B2B and Digital Payments Tracker® Series

What's Inside

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Need to Know

The Technology B2B Buying Experience Is Broken

Business-to-business (B2B) payments are generally acknowledged to be behind the innovation curve, with consumer payments having advanced much higher up the digital evolutionary scale in recent years. Ironically, the lack of modern B2B payments technology is perhaps nowhere more pronounced than in the technology industry itself.

A recent Gartner survey reveals that challenges plague the purchasing of technology in the B2B space. Technology buyers routinely face difficult buying experiences related to legacy purchasing processes, marked by poor communication and an overwhelming array of choices. Unsurprisingly, 95% of these buyers said they would rather have a fully digitized buying experience.

The technology B2B buying experience is sorely lagging in innovation.
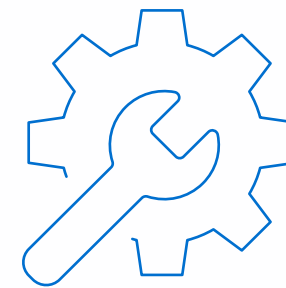
32%

Share of U.S.-based accounting professionals who say their B2B experience for purchasing software is "broken"
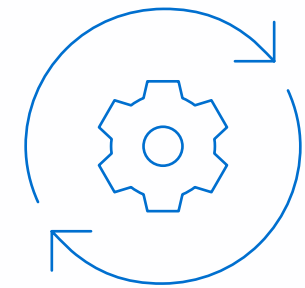
95%

Portion of technology B2B buyers who say they would rather have a fully digitized buying experience for these purchases

Need to Know

Technology companies' bottom lines are deeply impacted by B2B payments problems.

The vendor side of the tech B2B buying process suffers an outsized impact, especially with regard to late payments. Computer software tops the list of industries most likely to have trouble keeping on top of accounts receivable (AR), and the information technology (IT) sector waits the longest of any for invoices to be paid, receiving almost one-third of payments more than one month after the due date.

Further evidence that legacy procurement processes are to blame is not hard to find. Another study found that nearly 80% of United States-based B2B accounting professionals say their companies face challenges when purchasing B2B software and services, with half saying that stakeholders have poor visibility into purchasing and approval processes. Almost 71% conclude that automation of these processes is the only way forward.

B2B purchasing poses a significant problem for the technology sector, on both buying and vending sides of the equation.

79%
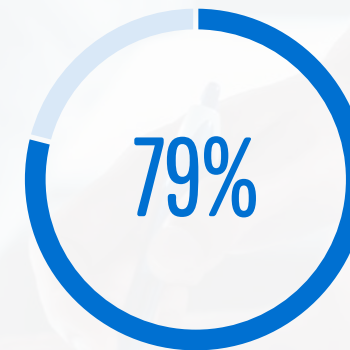
Share of U.S.-based B2B finance and accounting professionals who say their companies face challenges when buying B2B software **and services**

81%

Share of businesses in the IT industry that are paid late

Need to Know

The consumerization of tech B2B payments is long overdue — and profitable.

Although nearly 40% of B2B payments are still [made via paper checks](#), the rapid digital shift in consumer payments in recent years is fueling a similar transformation of the B2B payments arena. Moreover, 70% of marketplaces believe that accounts payable (AP) system innovation will improve their vendor relationships.

The technology industry is clearly overdue for a B2B payments upgrade — as some innovation leaders are already demonstrating. Software platforms are getting a [boost in revenue](#) as well as competitive benefits from embedding payments, for example. A recent survey found that 48% of B2B executives for software-as-a-service (SaaS) platforms leveraging embedded payments said the technology has given them an edge over their competition. Embedding payments increased client tenure for 35%, new client acquisition for 34% and company valuation for 28%.

The technology industry stands to reap many benefits from the consumerization of B2B payments.
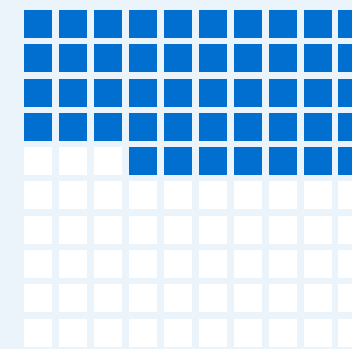
48%
Share of SaaS B2B executives who say embedded payments have given them an edge over their competition
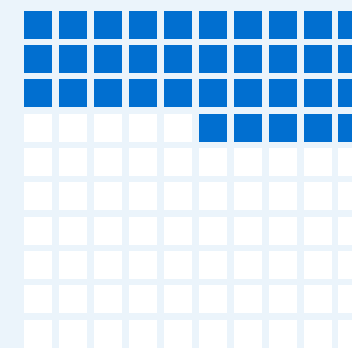
35%
Share of SaaS B2B executives who say embedded payments have increased client tenure
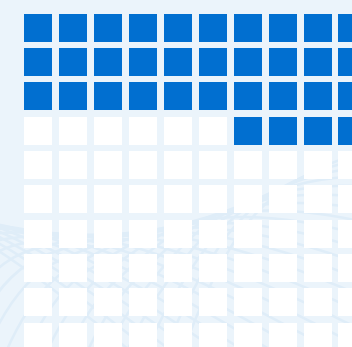
34%
Share of SaaS B2B executives who say embedded payments have increased new client acquisition

News and Trends

In Tech Procurement, Buyer's Remorse Is the Rule

A recent study by Gartner indicates that the challenges of making B2B technology purchases are driving an overwhelming trend toward buyer's remorse in the B2B tech space. The survey revealed that 60% of technology buyers engaged in renewals or expansions of "as-a-service" agreements live to rue almost every purchase decision they make. This figure is up 6% from 2020, largely due to a cumbersome and confusing legacy buying process.

The survey, which polled more than 1,500 global organizations during February and March 2023, found that frustrating buying experiences, punctuated by poor communication and too many choices, are hampering the work of technology buyers and ultimately prolonging buying cycles.

Tellingly, 95% of technology buyers said they would have preferred a completely digital purchasing experience. The study recommended expanding the number of activities that can be accomplished digitally in the technology B2B purchasing process.
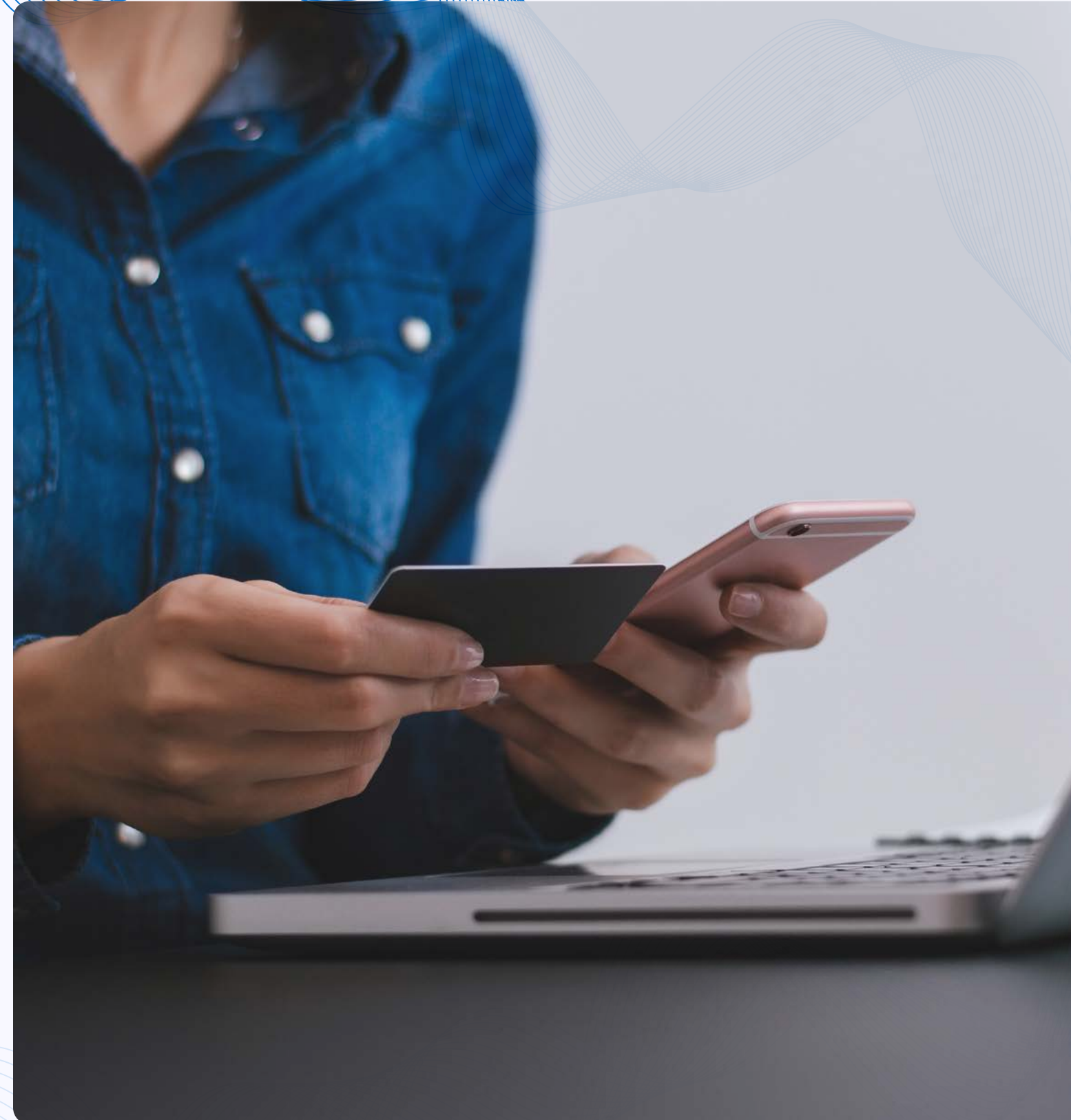
News and Trends

Software and services spending shows resistance to economic uncertainty

Economic headwinds are not blowing companies off course in their technology and software investments this year, according to a recent report from software marketplace G2. Based on the responses of 1,700 global B2B software decision-makers, the report finds that half of global software buyers anticipate spending more in the next two years, despite economic uncertainty.

Forty-nine percent of buyers said they will increase spending in 2023, compared to just 9% saying it will decrease. The future of software spend looks even sunnier next year, with 55% anticipating higher spending in 2024 versus just 6% planning to spend less.

Report researchers attributed the rise in spending to the growth of artificial intelligence, to which companies are turning to extend the value of their software purchases. The results show companies' willingness to invest in technology for business growth despite economic conditions. Nevertheless, report authors caution that buyers are also looking for fast results, with vendors facing pressure to show a positive return on investment within six months.

> "As buyers look for fast, easy solutions, it will be more important than ever for software vendors to think strategically about their ability to integrate with other tools, how they educate prospects along their journey and [how they] can provide helpful, efficient training during implementation.

CHRIS VOCE
Vice president of market research

PYMNTS Intelligence

Fixing the Tech Industry's B2B Payments Experience

When it comes to digital technology, B2B payments are well-known latecomers to the party, with advances in consumer payments far outpacing those of their business counterparts. The lack of modern B2B payments technology is perhaps nowhere more obvious or at odds than in the technology industry itself.

Nearly two-thirds of technology B2B buyers regret almost every purchase they make, up 6% from 2020, and the challenges of purchasing are a large part of the reason. Frustrating, legacy buying experiences, suboptimal communication and a surfeit of choices make up the daily routines of technology buyers, resulting in longer buying cycles when investing in expansion. On the receiving end, tech companies have some of the biggest problems with late invoice payments.

With technology investments proving relatively inflation-resistant this year, the industry could see strong competitive and revenue gains on both sides of the equation from investing in the B2B buying and payment experience.

PYMNTS Intelligence

Keeping on top of AR

Many companies in the technology and software industries are encumbered by slow payments. A recent study found that out of all industries, IT businesses wait the longest to get paid. Eighty-one percent of these businesses receive late payments, 31% of which arrive more than 30 days past due.

This payment tardiness is not for lack of effort on their part, as IT businesses are among those spending the most hours per week on AR management. Nearly one-third of IT companies spend upward of seven hours each week managing AR, and computer software is the industry most likely to struggle to keep on top of these tasks. This struggle has important implications for the tech industry, as data indicates that more thorough invoice follow-up is directly correlated with earlier payment.

Businesses following up on 70% or fewer of their invoices are more likely to receive payments 31-45 days after their invoice due dates.

Businesses following up on 90% or more of their invoices are the most likely to get paid within a week of their invoice due dates.

Late payments, in fact, may now be a greater problem than ever before: There has been a 209% increase in late payments since the pandemic's onset in 2020, with almost nine in every 10 businesses typically paid past their invoice due dates. Fully half of businesses spend upward of four hours per week chasing receivables.

PYMNTS Intelligence

Tech industry bears brunt of poor B2B buying experience

A look at the purchasing side offers a partial explanation for slow payments. Businesses are growing their tech stacks for B2B purchasing as they attempt to keep pace with digital transformation, yet nearly eight in 10 businesses face challenges when purchasing B2B software and services.

A slow purchasing process is the top reported challenge, at 34%, but issues do not end there, as approvals of B2B payments are quite problematic as well. Nearly half of U.S.-based B2B accounting professionals say their companies require six or more approvals for a new software or vendor purchase, and nearly one-third say it takes upward of three weeks to receive approval. Moreover, nearly three-quarters of AP teams struggle to match orders with invoices.

Accounting experts overwhelmingly favor automation of the purchasing process for B2B software and services.

71%
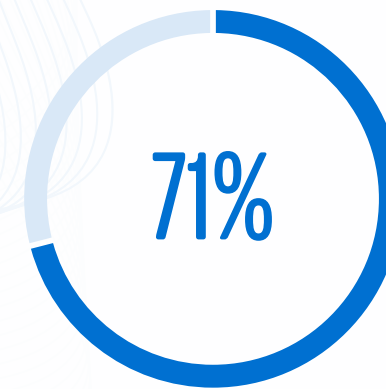
Share of U.S.-based B2B accounting professionals who believe the purchasing process for B2B software should be automated

87%
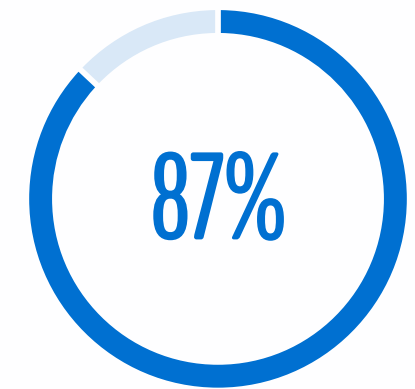
Share of businesses in favor of an all-in-one software solution to manage purchasing of B2B software and services

The upshot is clear: Nearly 71% of U.S.-based B2B accounting professionals believe their purchasing processes for B2B software and services should be automated. Indeed, 87% favor an all-in-one software solution to manage the process from purchase request through payment to vendors.

PYMNTS Intelligence

Tech companies benefit from B2B payments automation — as both developers and users

Encouragingly, businesses using AR software have been found to be three times as likely to have their invoices paid before the due date as non-users, so computer software and IT companies can benefit greatly by implementing these solutions.

The industry also stands to benefit uniquely as both users and developers of such technology. Although the global tech industry shows signs of slowing, the one segment that continues to perform strongly is B2B SaaS. A recent survey of more than 100 B2B SaaS companies found that while the SaaS industry is growing at about 17% per year, B2B companies within that segment are growing at more than 10 times that rate, with revenue rising by 179% in 2022 due to high demand. B2B SaaS solutions offer high value to business customers by using data and analytics to improve products and services. Tech companies need look no further than their own industry to help themselves as well as their clients improve the B2B payment experience.
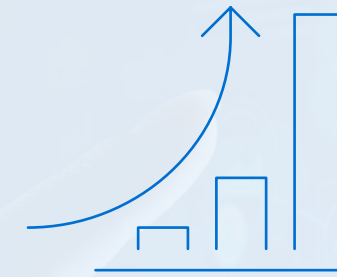
17%
Annual growth of the SaaS industry

179%
Annual growth of the B2B SaaS industry

Chart of the Month

B2B Payments Are Laden With Pain Points

Corporate buyers face a plethora of pain points around making B2B payments to their suppliers, according to PYMNTS research. The two primary B2B payments friction points are invoice reconciliation and a lack of supplier portals, each noted by 42% of companies, and a host of other issues are not far behind. These include working capital, spend and cash-flow management, indicating how crucial solving the B2B payments problem can be to companies' bottom lines.

Common problems companies experience when paying suppliers

Share of companies that name the following payments issues when making payments to suppliers, by level of importance

■ Most important problem
■ Important problem but not ranked as first
■ Total

Reconciling invoices
9.0%
33.4%
42.4%

Payment integration with ERP
7.7%
16.7%
24.4%

Inability to offer supplier portals
15.4%
26.0%
41.5%

Inability to share data across all functions
4.5%
18.6%
23.2%

Working capital management
7.1%
27.0%
34.1%

Real-time reporting
5.5%
16.7%
22.2%

Slow underwriting
10.3%
22.5%
32.8%

Inability to manage with mobile apps
6.1%
13.2%
19.3%

Lack of payment choice
5.1%
25.4%
30.5%

Having an integrated system between AP/AR
1.9%
12.2%
14.1%

Spend management
5.8%
23.2%
28.9%

Lack of digital check collection
3.5%
7.7%
11.3%

Real-time cash-flow management
6.8%
19.6%
26.4%

Slow transaction confirmation
2.9%
8.4%
11.3%

Data not provided across all areas of the organization
5.8%
20.6%
26.4%

Late or incorrect payments
2.6%
6.4%
9.0%

Source: PYMNTS
Meeting the Challenge of Payments Modernization: Understanding Customer Needs, June 2022
N = 311 executives: Complete responses, fielded Oct. 28, 2021 – Nov. 30, 2021

Insider POV

An Insider on Why the Tech Industry Is Ripe for B2B Consumerization

PYMNTS interviews Matt Wegner, vice president of global payments & risk at <u>Adobe,</u> **about how the technology industry is perfectly poised to move B2B payments toward a consumer model of technology and service.**

> " **I think you need to think about this problem and the players the same way that every company that I've been with in the tech space thinks about consumers. If you don't put a solution in place that's customer-centric and makes things easy, I think you introduce some risk to your business.** "

MATT WEGNER
Vice president of global payments & risk

In a world where consumer payments' evolution is moving at the speed of light, B2B payments often still follow longstanding traditions. The use of legacy B2B payments and processes seems out of place in the technology industry, but Wegner said that even large tech firms are no strangers to it — and, in fact, may be some of its biggest fans.

"I think part of the problem is large companies take a long time to change," he said. "They've got [engrained] processes, some of them for good reasons, like controls to make sure that money's not moving freely. There's a lot of control in big companies over their procurement shops."

Insider POV

The resulting B2B payment complications can be daunting. Wegner explained that inside a large company, the process not only for sending payments but also for everything that happens prior to it is highly complicated, with multiple stakeholders, levels of approval or even portals required. That makes for many potential speed bumps.

"How to approve [a payment], if it's approved, what you need when it gets rejected, how to deal with the rejection, invoice generation, reconciliation, errors, delays, overhead — I think all those things, for better or worse, add to the complexity of why B2B payments haven't moved as quickly as consumer payments, where it's fast, simple and easy."

The nature of technology itself, however, makes the industry the perfect vehicle for driving B2B consumerization. Wegner said the tech space as a whole knows from developing consumer products that not having a customer-centric solution places a business at risk of losing those customers. He said the industry's approach to consumers must be applied to its business customers, too.

"On the consumer side, stuff changes very quickly and if you don't change with it, you lose your customer and you lose your revenue," he said. "I think that things with technology are moving so quickly that some of that risk probably starts coming into the B2B arena."

Small companies and vendors are likely to turn the tide in favor of a B2B payments revolution. Wegner noted that the COVID-19 pandemic hit a lot of small to mid-sized businesses (SMBs) extremely hard, and there are still SMBs that are heavily dependent on cash flow to make their models work. Large companies' complex B2B processes can pose high hurdles for these small players.

"[Small companies] maybe don't have really deep pockets and large bank accounts, so they're highly dependent on that money coming in," he said. "If big companies don't change the way they operate, the smaller companies that buy their services or do business with them and are trying to get paid quickly may go to a different solution provider because they can get the money same-day versus net 45 or net 60 days."

Insider POV

B2B payments innovation offers a prime opportunity for third-party disruptors. Wegner said he thinks that to make a dent in the problem, a lot of large companies everywhere in the world need to move together and make the same changes — something that is difficult for them to achieve on their own. This makes B2B payments innovation a ripe opportunity for third-party disruptors.

"I think a third-party solution provider that's innovative, disruptive and leveraging technology can make it easier for large merchants and small merchants to all get there together," he said.

Self-service portals are a crucial step in the right direction. Like any large company, Wegner said, Adobe has a massive AR shop and a lot of policy and process, but one brilliant solution the company has launched is a self-service portal. Anyone who owes money to Adobe or vice versa can log in to this portal and see the details of the transaction and the payment terms. It also allows B2B buyers to pay Adobe through a credit card.

"I found in my personal life as a consumer, sometimes the best service you can get is self-service. I'm never disappointed with the service I provide when the right information tools are made available to me, and that's what Adobe is trying to put in front of our accounts receivable shop."

Consumerization of the B2B equation is inevitable. What the B2B payments problem ultimately boils down to is finding ways to strengthen business relationships, Wegner said. That makes innovation inevitable. Customer-centric solutions succeed by bringing empathy into play.

"If you can understand the pain points of your business partners and figure out ways to solve them, I think you build a longer-term relationship in the B2B space," he said. "I think we're starting to move closer and closer to what I would call a faster, better, customer-centric solution for B2B payments. But we've got a long way to go."

What's Next

IT to Show Highest Growth in Global B2B Payments Market Through 2031

A recent report indicates that the global B2B payments industry, which was valued at $125 trillion in 2021, is expected to reach $314 trillion by 2031, increasing at a compound annual growth rate (CAGR) of 9.9% from 2022 to 2031.

Business expansions and new product launches are expected to fuel this growth. While manufacturing is projected to maintain the largest share of the market, the IT and telecom segment is anticipated to show the highest CAGR during the forecast period, at 15%. This explosive growth is attributable to interest in protecting payments and financial information from cyberattacks as well as leveraging advanced analytic tools such as machine learning technology.

> " As an industry that leads in innovation, tech businesses are well-positioned to adopt the latest digital B2B payment capabilities. Many have already replaced inefficient processes with digitized and automated B2B payments solutions — like those provided by American Express — saving them time, minimizing errors, fraud and write-offs and increasing flexibility in cash flow. Those who implement automation see the impact on their working capital, bringing them a competitive advantage. "

Therese Banks
Vice president and general manager
B2B Products, Partnerships and Client Management

AMERICAN EXPRESS

About

PYMNTS

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

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