

MASTERCARD WHITEPAPER
OCTOBER 2018

The digital tool belt: Helping small businesses thrive



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Small business owners are typically a one-person C-Suite. This means they need to continually review and refine processes themselves to ensure operational efficiency, seize opportunities and maintain sound financial health. Digital tools can help with this effort. These tools enable small businesses to streamline processes, monitor and improve cash flow, provide first-rate customer service and strengthen overall operations.

A recent Mastercard survey* provides an in-depth look at how high-performing small businesses use digital tools in their operations. The following pages explain the findings from the survey and how digital approaches have transformed key business areas.

* Mastercard sponsored a survey of 500 small and midsize U.S. businesses, which was conducted by Bredin in April 2018. The terms "the survey" and "businesses surveyed" throughout this whitepaper refer to the Mastercard survey. The terms "high-performing," "best-practice" and "efficient/most efficient" businesses refer to those that expect revenue increases in 2018 compared to 2017.

STREAMLINING PROCESSES

When businesses digitize payment-related processes, the result is increased efficiency and stronger cash flow. Learn how best-practice businesses are refining their approach and becoming stronger in the process.

Cash is no longer king

58%

of best-practice businesses in the Mastercard survey either don't accept cash at all or prefer that their customers do not use it.

When making purchases,

52%

of these businesses forgo cash in favor of using a card or other electronic methods.

Big wins from automation

Many businesses that have shifted away from paper-based payments have seen a number of game-changing improvements in efficiency, accuracy and expense tracking. They also report a clearer view of spending, which helps them make informed decisions.

Paper checks have long been a go-to tool for making business payments and processing receipts, but read on to learn about the benefits of other options.

Improved cash flow

A key tenet of good cash flow management is to keep funds available for as long as possible. High-performing businesses in the survey were twice as likely as their peers to cite "holding on to money longer" as a primary reason for using credit cards to cover expenses. These businesses benefit from taking advantage of the "float" — the period between making a purchase and actually paying for it — to free up funds for other uses.

Streamlined processes

Adopting digital tools and methods may reduce effort and errors associated with paper-based payments. The manual steps involved in issuing checks — writing, addressing and recording — introduce the opportunity for mistakes, which burn up employee time. Research shows that problems with internal processes, errors and a lack of time to manage invoice volume are among the top reasons cited for payment slowdowns.¹

Strong relationships

Having accurate, reliable payment-related processes in place helps businesses stay in good standing with their customers and their vendors. That helps to strengthen trust and may make it easier to expand relationships and obtain more favorable supplier terms. Using digital tools also makes it easier to time bill payments and expedite incoming payments from customers.

Clearer insights

Businesses that follow payment best practices are likely to tap all available tools to manage their spending and receipts. The Mastercard survey found that these businesses are three times as likely as their peers to rely on digital tools to track spending. Using the online reporting features available with business cards and in web-based bookkeeping software can reveal opportunities to tighten or consolidate spending.



How digitizing collections boosts business health

Digitizing collections-related processes can also yield big operational gains and stronger cash flow. A few delayed or late payments from customers can quickly lead to cash constraints that hold a business back.

At each step of the collections process, high-performing businesses benefit from digital tools, because they:



Invoice via email

Two-thirds of best-practice businesses in the survey send invoices, via email, compared to less than half of their peers. Emailing invoices, either with an order or promptly at project completion, encourages faster payment, since the work will be top of mind. At the very least, customers receive emailed invoices faster than those going through the mail, so they can begin being processed sooner.



Automate billing

Some of the most efficient businesses also use tools to generate bills without manual intervention. This approach can get bills to customers more quickly and may reduce errors that could slow payment time.

Research has found that businesses approve invoices received electronically at nearly twice the speed of other invoices.²

When you bill automatically, you can store invoice details and send bills on a schedule. You can modify details manually and automate the invoice submission when you are ready, without printing or otherwise “touching” the bill.



Accept payments online

When payments are easy, customers pay more quickly. Nearly half (48%) of the most efficient businesses in the survey accept customer payments through their website, compared to a third of their peers. This option may seem obvious for product-based businesses, but service-oriented firms can also use it. Payment-portal software, for instance, provides a secure area within a website for customers to view bills and make payments.



Minimize errors

Invoicing mistakes are among the most common reasons for customer payment delays. The majority of businesses experience a significant number of errors in vendor bills, according to a recent study.² A wrong purchase order number, contact name or pricing error can hold up invoice processing — often without the sender knowing. Best-practice businesses in the Mastercard survey recognize this and are nearly twice as likely as their peers to review their bills to reduce errors.

A golden rule of cash flow management is to keep funds for as long as possible.

IMPROVING CASH FLOW

Adopting a strategic approach to payments can help businesses achieve better financial control, stronger supplier relationships and clearer spending insights. Expanding the payment methods they use can also help them more easily capture opportunities as they arise.

Top tactics to improve cash flow

A golden rule of cash flow management is to keep funds for as long as possible. Consistent use of some strategic habits can help you conserve cash and keep it available for all of your business needs.

Consider these steps:

Time payments strategically

Paying bills electronically can give you greater control over when funds leave your account. Using your bank's online bill payment service, for instance, lets you schedule payments for just before they are due. This keeps you in good standing with vendors, creditors and service providers while leaving funds available for other purposes. You may even be able to schedule recurring payments so that they are made at the same time each month.

Shift spending

Using credit cards for business purchases means you can take advantage of the float period before the funds are actually due. This is essentially an interest-free loan, since it keeps cash accessible for other uses until your bill is due. The businesses surveyed cited this benefit as a top reason for using credit cards. Card purchases may also accumulate points toward cash back, travel or other rewards, potentially saving your business money.

Educate vendors

If your vendors currently prefer checks, explain the benefits of accepting cards or electronic payments. Selling points include quicker access to funds, since mailing and check-clearing time is removed; simplification of their receivables process, since they won't need to deposit checks; and ease of reconciliation. Moving away from checks may also reduce the risk of fraud. Paper checks are still the most frequently targeted payment type that triggers communications to vendors.³

Rethink early payments

Saving a small percentage on bills may be tempting, but it's important to weigh this benefit against the potential costs. A \$20 discount on a \$1,000 invoice may not be worth losing an opportunity to get a one-time discount on inventory or make important repairs to critical machinery. Some circumstances may justify taking early-payment discounts, but just review each opportunity with an eye toward your known and potential financial commitments.

How best-practice businesses make purchases

The most efficiently run businesses in the survey use more digital payment tools than their peers. Here's what they use:

Mobile payments:

92%

of the businesses that use services such as Apple Pay and Google Pay to cover expenses were identified as following payment best practices.

P2P payments:

72%

of those that pay through platforms like Venmo, PayPal and Zelle follow payment best practices.

Credit cards:

68%

of best-practice businesses use credit cards for business expenses – 5 percentage points higher than their peers.

Debit cards:

57%

of best-practice businesses use debit cards – 12 percentage points higher than their peers.

The payback of digital tools

Adapting to a changing payments landscape means exploring new tools and methods as they emerge. Best-practice businesses are quicker to embrace these tools than their peers. In fact, these businesses are 10 times more likely than others to make purchases via mobile wallet services such as Apple Pay, Google Pay and Masterpass, according to the Mastercard survey. Best-practice businesses are also turning to person-to-person (P2P) payments, in which funds are transferred directly between users through a mobile app for certain types of payments. The attraction of these tools includes:

Speed

Businesses have been embracing digital payment tools because they are faster than paper-based methods. Newer forms of digital payment offer an even greater speed advantage. Mobile wallet services also streamline online purchasing by storing billing, shipping and contact information so that users don't need to enter it each time they buy online.

As a seller, mobile wallet transactions typically take less time to process at the point of sale than credit or debit cards.

Security

Digital payment methods have high levels of security, using strong encryption and other advanced security protocols to protect financial information. The card information that is stored in mobile wallets is not stored in sellers' point-of-sale systems. Instead, the data is often "tokenized"; this is when a card number that is not printed on the card is used to replace the real card number in the transaction process. P2P payments are encrypted and may include fraud-monitoring capabilities as well.

Ease of tracking

Electronic payment methods provide a clear transaction trail that makes it easy to view purchase amounts and quickly resolve confusion or errors. These services are typically tied to users' bank accounts, credit cards or debit cards, providing an easily accessible record of activity.

ENHANCING CUSTOMER SERVICE AND CONVENIENCE

Businesses that expand the payment methods they accept may see improvements in their customer relationships and even their sales. Accepting digital forms of payment, in particular, can also allow for clearer, faster insights into receivables.



Expanding options for customers

Businesses that follow receivables best practices provide their customers with a broad range of digital payment options. Many of these businesses have also automated their billing processes to improve convenience for customers. According to the survey:

76% of best-practice businesses accept credit and debit cards, compared with 63% of their peers.

56% accept electronic funds transfers or wire transfers, compared to 38% of other firms.

53% take mobile wallet payments, while just 29% of their peers do.

50% provide their customers with electronic payment options, compared to 31% of other businesses.

28% use automated invoicing to get customer bills delivered quickly, compared with 14% of their peers.

Types of mobile wallet payments

Businesses can accept mobile wallet payments in a number of ways:

In-person. Customers either tap their phone on the terminal, or hover the device over it, then complete the transaction using their fingerprint, PIN or facial recognition. To ensure a secure transaction, credit or debit card credentials saved on the customer's phone never use the actual primary account number (PAN). Instead, the PAN is replaced with randomly generated characters and is encrypted before the card is ever used — a process called tokenization.

Online/in-app. Customers can select a mobile wallet as their payment method when checking out online or in-app. Billing, shipping and contact information is stored so that they need enter it only once.

Four steps to mobile payments acceptance

More people are reaching for their mobile devices when it's time to pay for purchases. In fact, nearly one-third of consumers used a mobile payment service or app to make an in-store purchase in 2017.⁴

Mobile payments appeal to customers because they are quick, convenient and secure. Businesses that accept them convey that they are willing to innovate to accommodate customer preferences.

To begin accepting these payments:



1. Check your point-of-sale system

Many point-of-sale systems that accept chip cards also accept mobile payments. These terminals are equipped with technology that allows for the transfer of payment data from smartphones. If you're unsure whether your terminal accepts mobile wallet payments, contact the provider. In some cases, the functionality to accept these payments simply needs to be switched on.



2. Activate mobile wallet

If you sell online or within a mobile app and would like to begin accepting mobile wallet payments, enabling the feature is typically fast and straightforward. Most major shopping cart services allow businesses to activate these options within their settings. Payment gateway services such as Stripe, Braintree and Authorize.Net provide instructions online for accepting mobile wallet payments.



3. Train staff

Payment technology should be convenient for customers, so invest time in training employees to ensure a positive customer experience at checkout. Consider leading them through a few mock transactions for this purpose. Identify common trouble spots and develop a system for quick resolution so that customers are not waiting while your team troubleshoots.



4. Spread the word

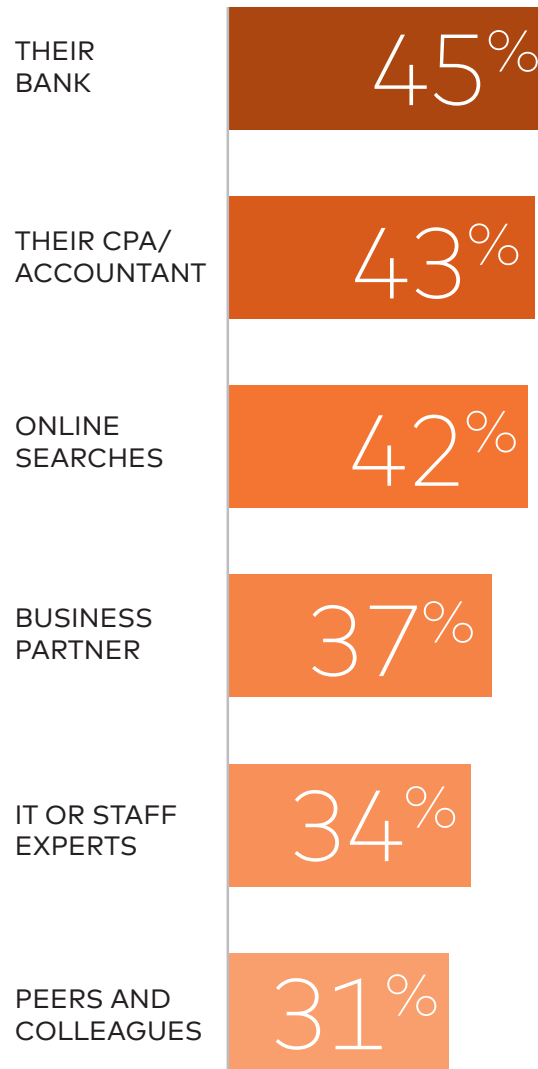
Promote your acceptance of mobile wallet payments at your business, on your website and through social media. Download the decals and other promotional materials available free of charge through Apple Pay, Google Pay, Samsung Pay, and the other major mobile wallet services and place these near your checkout area and storefront window. The major mobile wallet services also offer logos and buttons that can be placed in online stores and mobile apps to let customers know you accept these forms of payment.

FINDING ONGOING GUIDANCE

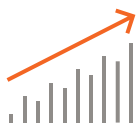
Top sources of operations advice for business owners

As they evolve through the different lifecycle stages, businesses need to keep up with best practices, including automation and digitization. Finding trusted resources — peers, advisors and others — for ideas and support helps fuel efficiency and foster success.

High-performing businesses in the Mastercard survey revealed they lean heavily on these sources for guidance:



By using the counsel of trusted advisors and continually testing new business tools, businesses may streamline processes, maintain sound financial health and strengthen overall operations. Adopting digital approaches to some core processes could result in gains throughout the entire organization.



Top practices for operational success

In a recent Mastercard survey of small and midsize businesses, high performers outpaced their peers in the use of these best practices:

- ☒ **Use digital tools for making payments:** This streamlines the payment process and reduces errors associated with paper-based manual processes.
- ☒ **Time payments strategically** to hold on to funds for as long as possible. This helps businesses capture unexpected opportunities and meet unforeseen expenses.
- ☒ **Explore newer payment forms**, such as mobile wallet payments, to save time on business purchases.
- ☒ **Use online reporting tools** provided with business credit cards and web-based bookkeeping software to gain spending insights and find cost savings.
- ☒ **Accept multiple forms of payment** to make it easier for customers to pay. Train staff to accept mobile wallet payments and other new payment methods.
- ☒ **Invoice customers electronically** to avoid lag time in the mail and prompt faster payment. Generate invoices automatically when possible.
- ☒ **Review invoices before sending** to ensure they are free of errors that could hold up customer payments.
- ☒ **Educate vendors and suppliers** about the benefits of accepting digital payments, such as a more streamlined receivables process.

By automating operations and streamlining time-intensive processes, digital tools can help small businesses compete more effectively with their larger counterparts. A robust digital toolkit can be instrumental in achieving greater operational efficiencies without straining limited resources.

For more information on similar topics, or to download this whitepaper, go to

www.mastercardbiz.com/mastercard-small-business-insights

or contact your Mastercard representative.

Sources

1. [Tungsten Network and the Institute of Finance and Management](#), 2017
2. [Institute of Financial Management](#), 2015
3. [Association for Financial Professionals](#), 2017
4. [Deloitte](#), 2017

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