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FROST & SULLIVAN

THE FUTURE OF B2B COMMERCE: A BETTER WAY TO ADDRESS TRADE CREDIT NEEDS

How Fundbox Net Terms Drives Growth, Reduces Costs and Mitigates Risk in B2B Commerce

A Frost & Sullivan White Paper

WHITE PAPER OBJECTIVE AND RESEARCH METHODOLOGY

White Paper Objective

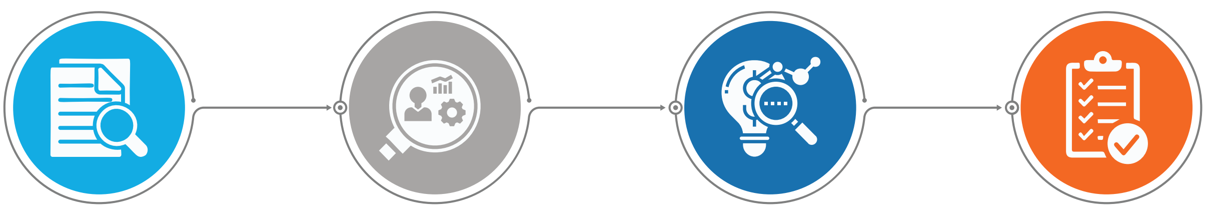
This Frost & Sullivan white paper outlines the adverse impact of net terms on business-to-business (B2B) sellers. It explains how next-generation credit and payments solutions for B2B commerce can help B2B sellers minimize the negative impact of offering net terms. Throughout this paper, the terms “B2B sellers” and “sellers” are used interchangeably.

Research Methodology

Frost & Sullivan conducted primary research interviews with senior-level executives from a variety of Fundbox customers in various vertical markets, including retail, apparel, online marketplaces, and medical devices. Interview participants shared detailed quantitative and qualitative insights based on their experiences with the Fundbox net terms solution. Data collected from primary interviews, coupled with insights aggregated from Frost & Sullivan's in-house research and ongoing coverage of the B2B commerce industry, was leveraged to develop a model to quantify the growth, cost savings, and risk-reduction benefits of the Fundbox net terms solution.

Exhibit 1 shows the Frost & Sullivan research methodology for preparing this white paper.

Exhibit 1



Secondary Research

Review industry reports, market databases, trade journals, industry literature, internet-based material, vendor case studies and materials.

Primary Research

Conduct formal discussions with Fundbox net terms users. Coordinate follow up interactions to validate assump-tions and collect additional data.

Data Analysis

Analyze data and insights gathered from primary research interviews and secondary sources. Develop an internal model to quantify the benefits of Fundbox net terms.

Whitepaper Delivery

Present research findings in a whitepaper. Include data from the Frost & Sullivan model to highlight the benefits of Fundbox net terms.

WHY SHOULD B2B SELLERS CARE ABOUT NEXT-GENERATION CREDIT AND PAYMENTS SOLUTIONS?

Visionary Innovation in B2B Credit and Payments

Frost & Sullivan defines “visionary innovation” as the ability to scout and detect unmet customer needs and proactively address them with disruptive solutions that cater to evolving business demands, products, and technologies. Visionary innovation in B2B credit and payments can provide sellers with the tools to deliver differentiated solutions that transform the way businesses perform their daily operations. In particular, next-generation credit and payments solutions can drive growth, improve business efficiency, reduce risk, and lead to higher customer satisfaction levels. Such solutions can fundamentally change how B2B business is conducted and trigger a paradigm shift in B2B commerce.

The B2B Economy Runs on Net Terms

There are significant differences in how payments are made in business-to-consumer (B2C) commerce compared to B2B commerce. In B2C commerce, most payments are instantaneous and follow a predictable path. However, in B2B commerce, sellers typically provide trade credit with net terms—which, depending on the industry, may be called payment terms, dating terms, trade credit, business credit, or customer credit—that allow buyers to buy now and pay at a later date, often 30, 60, 90 days or, in extreme cases, up to a year later.

B2B Sellers Must Offer Net Terms to Compete

The inability or unwillingness to offer net terms can create headwinds for growth. For example, larger and more established buyers demand—and usually receive—net terms from sellers. A refusal to offer net terms can lead to smaller orders, fewer customers and reduced loyalty for B2B sellers. Therefore, sellers must explore how they can work with buyers that want suitable net terms while minimizing the impact of delayed payments on their businesses.

But, Net Terms Create Significant Challenges for B2B Sellers

While net terms are convenient for B2B buyers, B2B sellers prefer to get paid right away to preserve cash flow. Frost & Sullivan research indicates that B2B sellers encounter lower growth, higher costs, and increased risks by offering net terms as compared to receiving payments when their work is complete. Sellers hinder their growth by limiting who they offer net terms to, particularly when they sell to a fragmented buyer base without adequate visibility into customer risk. They can also spend excessively running their own net terms programs, investing in financing tools and personnel for operations. For sellers, the risk of late payments (payments delayed beyond the date of payment specified in the net terms agreement) and payment defaults increase with longer-duration net terms. Alternatives to net terms programs, such as working capital loans and factoring, can be expensive and cumbersome.

> **Frost & Sullivan research indicates that B2B sellers encounter lower growth, higher costs, and increased risks by offering net terms as compared to receiving payments when their work is complete.**

CHALLENGE #1: NET TERMS ADVERSELY IMPACT REVENUES

Cash Flow Concerns

With the absence of an immediate payment, traditional net terms often create cash flow problems for sellers. Moreover, sellers face stress with account payables when receivables are delayed. Some of the more tangible issues associated with net terms that negatively impact business growth include:

- Difficulties supporting new product initiatives.
- Restricted ability to invest in strategic growth programs.
- Difficulties floating the capital to pay for product manufacturing and inventory, which becomes more challenging for larger orders.
- Reduced investment in sales and marketing.
- Missed sales opportunities due to credit rejection.
- Obstacles investing in next-generation business tools and technologies.

Impact on Growth by Offering Net Terms

Frost & Sullivan research indicates that B2B sellers can, on average, increase revenues by approximately 25% to 35% if payments are received immediately and invested in strategic growth activities such as expanding production capacity, purchasing inventory in a timely manner, and/or investing in new product innovation.

> "Where we struggle with net terms is to have the capital for development and manufacturing and for financing the inventory in retail. We need the capital right away so that we could funnel it back into manufacturing or development."
>
> *— A premier carbon fiber bicycle manufacturer*

CHALLENGE #2: NET TERMS INCREASE COST OF OPERATIONS

Profits Margins Decrease Due to Net Terms

Companies that offer net terms must also manage net terms. Larger sellers often invest in dedicated resources to manage processes such as credit assessments, approvals, tracking payments due, collections, and paperwork associated with net terms financing. For smaller sellers, these processes are often managed by executives that have competing priorities and would rather spend time on core business activities. The costs incurred by B2B sellers that offer net terms include:

- Cost of resources (employees and systems) for managing the net terms program.
- Cost of checking credit of potential customers.
- Discounts offered for faster or immediate payments.
- Cost of collections for cases where payments collection is handled by a third-party collections agency and sellers have to pay them for their services.

Impact on Cost by Offering Net Terms

Frost & Sullivan's analysis indicates that the cost of managing a net terms program can add, on average, approximately 8% to 10% to the total cost of business operations. Thus, if payments are immediate and automated (and if B2B sellers did not have to spend time managing their net terms program), costs can be reduced by up to 10%.

CHALLENGE #3: NET TERMS INCREASE BUSINESS RISKS

Payments can be Delayed or Denied

Generally speaking, the risk of late payments increases with longer-duration net terms. B2B sellers often face competitive pressure from larger competitors that can offer longer terms to attract buyers. This makes it difficult to compete. Sellers are generally not in a position to accurately access the credit risk of buyers (as they are not underwriters) or demand immediate payments. Moreover, late payments are a major industry challenge; some buyers are known to delay terms as long as possible and wait to pay when they place another order. Some of the more tangible risks associated with net terms programs include:

- Lack of in-house credit and payments expertise leads to inefficiencies and risky lending.
- Risk of late payments (payments delayed beyond the date of payment specified in the net terms agreement) due to buyer leverage.
- Risk of non-payments due to customer defaults.
- Risk of customer churn due to the inability to establish solid business relationships by not extending net terms.
- Risk of customer churn due to aggressive collection calls.

Increase in Risk by Offering Net Terms

Frost & Sullivan's analysis indicates that revenue losses from late payments, payment defaults, and customer churn can range from approximately 6% to 8% for SMBs. The probability of non-payments and late payments increases when net terms are given. Therefore, B2B sellers often promote shorter-duration net terms when possible, particularly with smaller buyers or those with less-than-desirable business credit histories.

> "As a small company ourselves, we feel it's a credit risk for us to give terms to customers because we will then have to put more effort in collections than what we desire to do."
>
> *— A leading provider of medical equipment and products*

The Solution: A Next-generation Credit & Payments Platform

While net terms are convenient for B2B buyers, B2B sellers prefer to get paid right away to If B2B sellers were to demand cash for every transaction, or insist on shorter-term invoices, customers certainly might move to a competitor that offers longer terms. In industries such as retail and electronics, offering longer-term invoices is essential to secure the best deals. Sellers can select invoice factoring to reduce cash flow gaps that occur when offering net terms. However, high costs, longer approval and payment times, and manually intensive processes make it difficult for sellers to work with factors. Businesses can also use credit cards and working capital loans to secure credit and raise cash. However, credit cards and working capital loans do not have the flexibility or cost-effectiveness to allow buyers and sellers to overcome the challenges of trading through net terms.

Frost & Sullivan firmly believes that there is a clear need for cost-effective and automated credit and payments solutions that provide sellers with immediate access to funds, while simultaneously offering the net terms that buyers expect. The desired attributes of a next-generation credit and payments solution for B2B commerce include:

- **Faster financing** – Cash flow needs can be unpredictable. Businesses must get paid as soon as their work is complete. They should not have to wait for weeks before getting access to the much-needed funds.
- **Continued ability to offer net terms** – An inability to offer net terms can lead to loss of business. Therefore, the next-generation solution must allow B2B sellers to offer net terms to buyers and handle the risk of offering terms to customers.
- **Cost-effectiveness** – The solution must be reasonably priced. A more expensive option than what is currently available (i.e., factoring, credit cards, and short-term loans) is unlikely to gain acceptance among the B2B seller community.
- **Customization capabilities** – A next-generation solution must create new service models tailored specifically to what the B2B sellers demand. For example, B2B sellers requiring upfront deposits must be able to use the platform with the same ease as a company that runs a stocking program through retail customers. They must have the ability to put their brand first through white- or grey-label deployments, if desired. The solution must also integrate with existing enterprise systems such as enterprise resource planning (ERP) or e-commerce platforms.
- **Seamless and completeness** – A next-generation solution must offer little or (ideally) no friction in the credit and payments process. This is important to provide a great user experience. It must enable B2B sellers to service all potential customers, regardless of their method of payment, including checks, credit cards and ACH transfers, or their risk levels.

A Next-generation Credits & Payments Solution is Available Today

Frost & Sullivan's independent analysis confirms that Fundbox net terms is a next-generation credit and payments solution that allows B2B sellers to offer net terms without facing slower growth, higher costs or increased risks. An overview of Fundbox net terms is presented in the following sections.

Introducing Fundbox Net Terms – A Next-generation Credits and Payments Solution for B2B Commerce

Fundbox net terms enables merchants to extend interest-free net terms to their approved customers. Term lengths can vary and be customized by the merchant but are typically 30, 60, or 90 days. Merchants (B2B sellers) receive immediate payment for goods or services sold without the credit risk or the administrative burden of running the program in-house and collecting from customers. Merchants use Fundbox to power their own business credit programs by leveraging Fundbox's expertise in finance, risk, data, software, and customer service. Fundbox is responsible for credit assessments and extending terms. A merchant's customers pay Fundbox at the end of terms.

Fundbox Net Terms vs. Credit Cards, Working Capital Loans and Receivables Factoring

B2B sellers and buyers can use credit cards, working capital loans and receivables factoring to address some of their capital needs. In contrast, Fundbox net terms has been designed from the ground up to address a broad range of payments and credit needs of B2B sellers and buyers without any trade-offs, as shown in Exhibit 2.

Exhibit 2

	Credit Cards	Working Capital Loans	Receivables Factoring
Overview	Credit cards allow buyers to receive payment terms through shorter-duration billing cycles (no 60 or 90 day payment terms). Their credit limits can be lower than what they can receive through net terms. Credit cards may not work every-where - businesses may refuse to accept cards-based payments due to higher cost of payments acceptance and processing.	Working capital loans are term loans that can be used to improve cash flow and support business operations. However, they don't help businesses get paid faster for traded items. Working capital loans can command significant interest rates as well.	Receivables factoring can provide faster payments for sellers, but it has notable limitations such as higher costs, process delays and minimal customization capabilities. The user experience for sellers and buyers with factoring leaves much to be desired*.
Fundbox Advantages	With Fundbox net terms, buyers can receive longer-duration net terms. They can also purchase more as their credit limits can be higher. Sellers receive immediate payments while paying lower in payments processing costs.	With Fundbox net terms, sellers are paid immediately. They don't have to pay any interest for receiving immediate payments, making Fundbox net terms cheaper for sellers than working capital loans.	Fundbox offers a modern, technology-driven solution that can underwrite payments immediately. Unlike factors, Fundbox aspires to manage the full net terms program of B2B sellers. A seamless and complete solution, Fundbox net terms enables sellers to service all potential customers.

**For example, it can take a few weeks for sellers to receive funds after providing all the necessary documentation to factors.*

FUNDBOX NET TERMS GROWTH BENEFITS

The Four Important Ways in Which Fundbox Net Terms Drives Growth

The important ways in which Fundbox net terms drives growth are presented below.

- ***Increase in average order value (AOV)*** – Higher credit limits and longer terms offered by Fundbox net terms encourage buyers to place larger orders and stock up knowing they have more time to sell the inventory.
- ***New customer acquisition*** – Fundbox net terms allows sellers that previously had net terms to sell to a new selection of buyers that were once considered too risky or were not well-known enough to qualify for net terms. Additionally, businesses that have not offered net terms in the past can offer these without any risk of default. Fundbox net terms also enables businesses to easily expand their net terms program, mainly by automating the tasks associated with managing the net terms program activities, such as keeping track of late payments, credit approvals and payments reconciling.
- ***Support net terms requirement for high-touch customers*** – Fundbox net terms allows sellers to support net terms requirements for high-touch customers by helping to solve the cash crunch when manufacturing big orders or having to meet the demands of extending longer terms. Net terms can be customized such that each buyer, especially the high-touch, high-value ones, can get exactly the terms they negotiate with the seller.
- ***Improved cash flow*** – Fundbox pays sellers right away. The availability of funds elevates B2B sellers' ability to execute their growth plans. B2B sellers can capitalize on emerging growth opportunities when they have funds readily available.

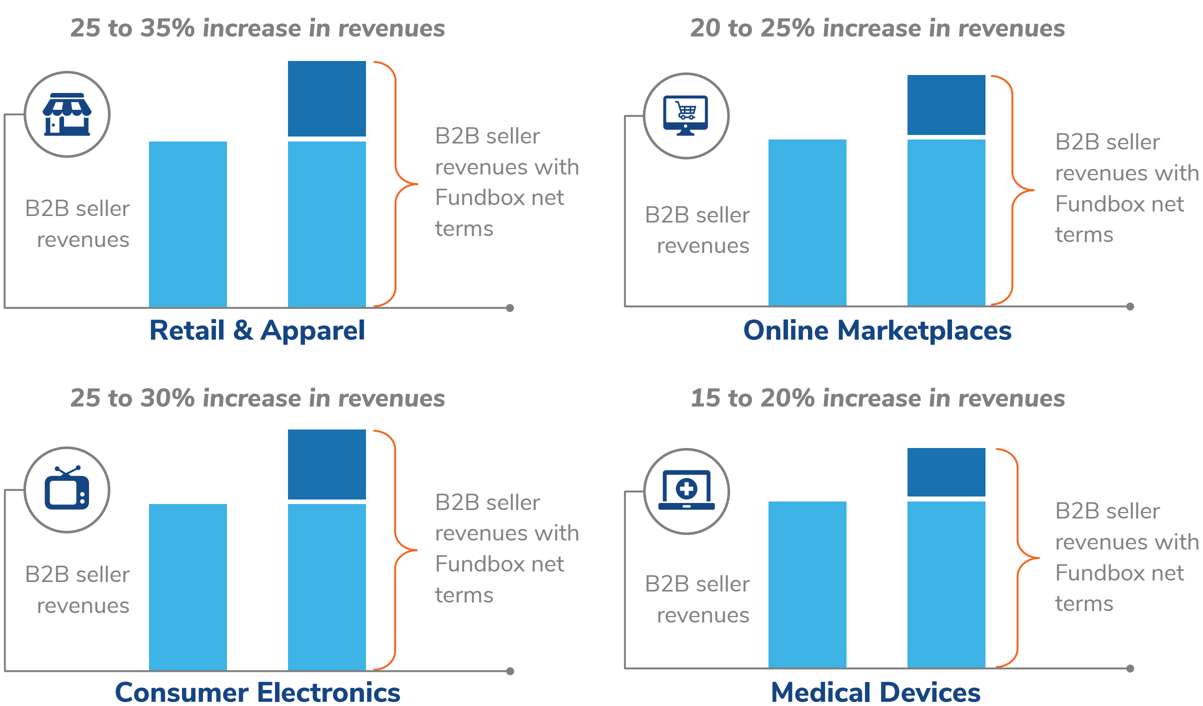
Key Research Finding: B2B Sellers Can Increase Revenues by 25% to 30% Using Fundbox Net Terms

- Frost & Sullivan's analysis indicates that B2B sellers can increase annual revenues, on average, by approximately 25% to 30% with a full migration to Fundbox net terms.
- Benefits contributing to growth include an increase in AOV, support for new customer acquisition, and improved cash flow.
- B2B sellers must ensure that most net term volumes are processed through Fundbox net terms to realize maximum growth benefits.

> "For us, Fundbox net terms has really had a positive impact on our AOV and on the retention with the customers that are using it. We are also seeing an uptick in conversions."
>
> *— A leading private label manufacturer and exclusive branding company*

Exhibit 3 below shows the estimated range of Fundbox net terms growth benefits for the key industry verticals.

Exhibit 3



FUNDBOX NET TERMS COST-REDUCTION BENEFITS

The Five Important Ways in Which Fundbox Net Terms Saves Costs

The important ways in which Fundbox net terms helps save costs are presented below.

- ***Reduced cost of collections*** – The risk of non-payments and late payments shifts from the B2B seller to Fundbox. B2B sellers do not have to worry about collections either, given that Fundbox assumes the risk of non-payments.
- ***Reduced cost of managing the net terms program*** – With Fundbox net terms, the employee costs of managing the net terms program are reduced. For example, the work hours spent to keep track of which accounts owe what, when payments are due, which clients take advantage of early payment discounts, and which do not pay on time are saved when using Fundbox net terms. By reducing the painful administrative tasks, Fundbox allows controllers, accountants and other team members to focus on more value-adding work.
- ***Reduced cost of payment acceptance*** – The charges for accepting payment through Fundbox net terms tend to be lower than the charges for accepting payments through credit cards.
- ***Reduced discounts offered for immediate or faster payments*** – With Fundbox net terms, B2B sellers receive faster payments without having to offer discounts to incentivize faster payments.
- ***Reduced cost of credit checks*** – With Fundbox net terms, B2B sellers don't have to spend anything to check the credit of potential customers.

Key Research Finding: B2B Sellers Can Save 6% of Their Revenues By Using Fundbox Net Terms

- Frost & Sullivan's analysis indicates that Fundbox net terms can help B2B sellers save an additional 4% to 6% of revenue that would otherwise be paid out as costs of various business processes.
- Benefits contributing to savings include a reduced cost of payments acceptance, fewer discounts offered for faster payments, a lower cost of collections, and reduced cost of checking credit for potential customers.
- With Fundbox net terms, employees do not have to spend much time managing their net terms program, which generates time and cost savings. Frost & Sullivan's analysis indicates that a B2B seller with 15 employees can save, on average, approximately 8% to 10% percent in employee cost hours in the finance and account management functions.
- B2B sellers must ensure that most net term volumes are processed through Fundbox net terms to realize maximum cost-reduction benefits.

> "If we didn't have Fundbox net terms and we gave terms, we would need another resource to manage our net terms program. Fundbox net terms allows us to scale our receivables department without incurring a fixed cost."
>
> — *A leading apparel company*

FUNDBOX NET TERMS RISK-REDUCTION BENEFITS

The Two Important Ways in Which Fundbox Net Terms Reduces Risk

The important ways in which Fundbox net terms helps reduce business risks are presented below.

- ***Reduced risk of payment defaults and disputes*** – With Fundbox net terms, B2B sellers are paid immediately. There's no risk the seller won't get paid (no late payments or defaults) since Fundbox is responsible for assessments, payments, and collections.
- ***Lower risk of customer churn*** – By offering sufficient terms to sellers (longer terms), customers can commit more to the seller. More commitment leads to better relationships and less churn.

Key Research Finding: B2B Sellers Can Eliminate Revenue Losses of Up to 5% By Using Fundbox Net Terms

- Frost & Sullivan's analysis indicates that Fundbox net terms can help B2B sellers save, on average, approximately 3% to 5% of their revenue that could otherwise be lost due to the risks associated with net terms-driven businesses.
- The prime risk-reduction benefits of Fundbox net terms include elimination of payment defaults, reduction in payment disputes, and lower customer churn.
- B2B sellers must ensure that most net term volumes are processed through Fundbox net terms to realize maximum risk-reduction benefits.

> "We use Fundbox net terms as our safety net. Since we started using Fundbox net terms, we have significantly reduced our bad debt."
>
> *— A leading apparel company*

SUMMARY OF FINDINGS

B2B Sellers Must Offer Net Terms to Generate Business

The needs and requirements of B2B sellers, compared to those of buyers, are fundamentally distinct. B2B buyers expect extended time to pay and desire net terms. B2B sellers, on the other hand, want immediate payment upon delivery for goods and services. Yet sellers are obligated to offer net payment terms to generate more business and stay competitive. If they choose not to offer net terms, they will lose out on new business opportunities and will likely see diminished business from existing customers. By offering net terms in-house, however, sellers with resource limitations face clear growth constraints, higher costs, and increased risks.

Fundbox Net Terms Allow B2B Sellers to Offer Net Terms and Grow Their Businesses

With the Fundbox net terms solution, B2B sellers can offer net terms and receive payments immediately. Frost & Sullivan's analysis shows that Fundbox net terms can help B2B sellers optimize operations by:

- ***Increasing annual revenues*** by approximately **25% to 30%**.
- ***Saving approximately 4% to 6% of revenue*** that would otherwise be paid out as costs of various business processes.
- ***Preventing 3% to 5% of revenue from being lost*** due to risks associated with offering net terms.

B2B sellers must ensure that most net term volumes are processed through Fundbox net terms to realize maximum growth, cost reduction and risk-reduction benefits.

> "With Fundbox net terms, we see higher growth, lower cost and reduced risks. We would put every one of our customers up on Fundbox net terms if we could."
>
> *— A leading women's apparel company*

NEXT STEPS

- **Schedule a meeting with our global team** to experience our thought leadership and to integrate your ideas, opportunities and challenges into the discussion.
- Interested in learning more about the topics covered in this white paper? Call us at 877.GoFrost and reference the paper you're interested in. We'll have an analyst get in touch with you.
- Visit our **Digital Transformation** web page.
- Attend one of our **Growth Innovation & Leadership (GIL)** events to unearth hidden growth opportunities.

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