

The CLA logo consists of the letters "CLA" in a bold, white, sans-serif font, set against a solid yellow square background.

CLA

Canadian
Lenders Association

A circular logo with the text "BNPL" in a bold, white, sans-serif font. The logo is surrounded by several hexagonal icons connected by thin white lines. The icons include a shopping cart, a bar chart with an upward arrow, a magnifying glass, a hand holding a coin, and a house with a dollar sign inside. The background of the entire slide is a blue-tinted image of a person's hands holding a laptop, with binary code (0s and 1s) visible in the background.

BNPL

A New Payments Landscape: Leveraging BNPL for B2B Transactions

SPONSORED BY

tabit

- 03 **Introduction**
- 04 **A Bigger Market**
- 05 **The B2B Payments Opportunity**
- 08 **Case Study: Tabit, Canada's First B2B BNPL Solution**
- 11 **BNPL Provider Risks**
- 12 **How B2B BNPL is Shaping the Future of Payments**

Introduction

Buy Now, Pay Later (BNPL) is one of the most popular trends in business-to-consumer (B2C) payments. Many millennials and Gen Zs are foregoing traditional credit card payments—and the accompanying high interest rates—in favor of interest-free installment payments. With such a high demand for consumer BNPL, Canada has seen an increased interest in BNPL products in the commercial space. Now extending further than just to end-consumers, BNPL benefits are now being offered by suppliers and wholesalers to their business buyers. Together, these groups are key in the overall functioning of the Canadian economy; and amongst the business buyers, small businesses contributed **almost half** of Canada's GDP in the private sector in 2020, and facilitated crucial transactions across the country.

A number of solutions in the market currently compete to satisfy this increasing demand for commercial-focused BNPL products. This paper serves as a guide to the lending ecosystem for business-to-business (B2B) BNPL loans and highlights the benefits of BNPL products.

A Bigger Market

Consumer-facing BNPL players like Klarna, Afterpay, and Affirm have gained great brand recognition and are vying for the consumer's preference. As it currently stands, while the B2B segment is less competitive it actually represents a higher market valuation. The value of global B2B e-commerce in 2018 was a whopping \$21 trillion, or 83% of all e-commerce. Comparatively, B2C e-commerce was only valued at a little over \$4 trillion.

BNPL gained popularity in B2B commerce at the onset of the pandemic, when buyers indicated an increased interest in short-term financing options. This momentum is evident in investor attention: in 2021, financing solution provider Behalf raised \$100 million to build out its B2B BNPL product. Berlin-based startup Billie recently closed on \$100 million of funding at a \$640 million evaluation. Veem too, recently stepped into the space with two new BNPL products for small and medium-sized businesses (SMBs).

The potential for BNPL in this sector is growing, and fintechs across the lending spectrum are well-positioned to take advantage of this rising market demand. Before doing so, it is important to understand the precise pain points these solutions are set up to solve.

The B2B Payments Opportunity






For a relatively new category, B2B BNPL has the potential to resolve a lot of challenges faced by buyers and sellers. For example, it is still common for B2B suppliers (“the seller”) to receive paper checks from its buyers. Moreover, it can often take months for suppliers to be paid on invoices, with typical payment terms of up to 90+ days in transaction lag time. “If you’ve run a small business in Canada you know that existing B2B credit products [for suppliers] are miserable,” **says** Jamie McDonald, co-founder of Hubdoc, a cloud-based service and mobile app for digitizing financial documentation.

Commercial BNPL is not exclusively positioned to benefit suppliers. By allowing buyers to pay back their suppliers with customized, easy installments, the cash flow of small to medium-sized enterprises (SMEs) using this product is drastically improved. **99.8%** of all Canadian businesses are SMEs with less than 500 employees, and contribute roughly 38.4% of Canada's GDP. As both B2B buyers and suppliers seek a more efficient and convenient solution, BNPL will emerge as a leading payment method.

In Canada, B2B BNPL has not been at point of sale; the current BNPL space splits off into the three following categories: platform providers, lenders, and sellers. Now however, with advanced technology and underwriting capabilities, BNPL can be at point of sale and thus, B2B **sellers** receive many key benefits:

- Leads to higher "AOV"
- Provides merchants with valuable customer information on drop offs, conversion rates, AOV rates, pre-approved credit lines and more
- Eliminates credit risk
- Reduces administrative tasks of credit management
- Improves cash flow with the immediacy of payment

The benefits also however, extend to **buyers**, as evidenced in the graphic below:

-  Buyers receive a low or no-interest short-term financing option
-  Improves cash flow with the extension of payment
-  Provides a seamless purchase experience
-  Allows for more time to run a business without worrying about financing delays
-  Replaces manual applications with instantaneous approvals

BNPL enables buyers to address temporary cash flow issues while satisfying immediate purchase requirements. Providers of B2B BNPL products use artificial intelligence/machine learning (AI/ML) algorithms to **tailor** their credit offerings based on cash flow data points and other proprietary credit tools. The credit provided guarantees repayment to the seller and ensures sufficient funding for the buyer.

The demand for BNPL payment solutions is evident, as more than half (53%) of business owners and senior decision makers (DMs) say they would consider a financing solution at checkout where payments can be made in installments over time. A significant amount of data has been gathered to support this demand; in a survey commissioned by tabit via Angus Reid Institute, it was estimated that:

- Young business owners and senior decision makers (18-34) are twice as likely as those 35+ to say they would “definitely” use this type of financing solution (16% vs. 7%, respectively)
- Owners and senior decision makers at relatively larger companies (10+ employees) are twice as likely as those with fewer than 10 employees to say they would “definitely” or “probably” consider this financing solution (36% vs. 17%, respectively)
- One-in-three (34%) business owners and senior decision makers say this type of financing solution would make them more likely to make larger purchases for their business. This rises to 44% among younger respondents (18-34) and 42% amongst respondents at larger companies (10+ employees)

CASE STUDY



Canada's First B2B BNPL Solution

There are a number of industries that stand to benefit from B2B BNPL platforms. Consider your local Canadian grocery store that purchases supplies from wholesalers at regular intervals: many of these local shops have struggled to stay on top of business expenses as a result of financial stress caused by the pandemic. With quicker access to capital, in this example, grocery stores are now able to run their operations without financing delays and backlog. Before B2B BNPL solutions, small businesses had limited options when trying to access credit from their suppliers. This led to a time consuming search for credit and a need to understand the various benefits and drawbacks of each option.

While there are less commercial payment options for businesses when buying inventory and making other critical purchases, companies have recognized the potential of financial technology. By offering alternative payment options such as BNPL to their buyers, sellers can increase their conversion rates as well as their AOV. Sellers may choose to subsidize this short term cost to enable a 0% financing option for their buyers. The latest BNPL product that has come down the pipeline is tabit: a company which provides installment financing at point of sale, allowing small business buyers to access the same payment flexibility as large businesses. Tabit differentiates itself by automating the underwriting process at point of sale, unlike other—more manual, less digital—products on the market.

Tabit, powered by Merchant Growth, is a B2B BNPL solution with a home-grown advantage; it is built by a trusted legacy provider of small business loans that has funded over 7,000 small businesses in Canada. With this strength behind it, tabit can approve buyers instantly, allowing for a much easier purchasing process. “This solves the counterparty risk issue for the seller, making the tabit payment option a ‘win-win’ for both buyer and seller,” says tabit Executive Vice President, Elias Beaino.

Tabit leverages Merchant Growth’s efficient and accurate automated underwriting platform, perfected over the last 12 years of Merchant Growth’s operating history. This significant capability uniquely positions tabit to be a leading player in the B2B BNPL payments space given the demands for instantaneous credit authorization. As noted by David Gens, CEO, “unlike most companies in the space, Merchant Growth is not building the infrastructure from scratch: tabit’s main technological build-out is focused on readily available API integrations with third party ecommerce platforms.”




Understanding small business risk and the related underwriting capability is a Merchant Growth core strength, giving tabit instant credibility and confidence in the commercial B2B BNPL space. This strength in underwriting, used in providing instantaneous credit decisioning exemplifies the substantial advancement in the product when offering BNPL.

The immediacy of credit is a very difficult thing to execute in the commercial space. Tabit has the capacity to underwrite large volumes instantaneously. Each seller is now positioned to access more buyers, making the sellers experience easier. Tabit integrates directly with the seller's point of sale to offer buyers financing options as low as 0%.

This model does exist in other markets worldwide: **Hokodo**, a company offering its own B2B BNPL solution in Europe, has stated that with just over 20 merchants making use of its BNPL solution, they have 10,000+ buyers transacting on their platform. By simply offering better and more flexible payment terms, buyers saw a 40% increase in revenue from better conversion and larger baskets.

BNPL Provider Risks

There are certain risks that come along with B2B BNPL that providers have needed to recognize. Identifying these risks and creating an actionable plan for mitigation has been necessary for providers to minimize any negative outcomes and position themselves at the forefront of customer loyalty. Below are some of the standard risks providers can expect when offering these types of loans:

-  Periods of economic downturn/recession altering repayment schedules
-  Higher levels of defaults than projected
-  Customer data and personal information breaches

Several approaches can be taken in order to manage the risks outlined above. For one, B2B BNPL providers do have the option of declining the credit request. Secondly, having an infrastructure in place to deploy a proactive risk management strategy is key. A claims team is trained in the most effective way to seek recoveries in the event of a fraudulent transaction, and regularly update authentication models. At the forefront of developments in new technology, fintech providers are already positioned to meet inherent risks with the latest mitigation capabilities. Also, using real-time data allows companies to constantly update customer information, resulting in more precise loan decisioning.

How B2B BNPL is Shaping the Future of Payments

There is no doubt that the B2C payments market has seen immense growth and innovation over the past few years with the introduction of BNPL. The B2B market, which is more than 5x larger than B2C, is ripe for the introduction of BNPL and the consequential value it will bring to the market. The implementation of BNPL in the B2B space could catalyze massive disruption in the Canadian payments landscape. For example, card issuers could be pressured to deliver better rates to buyers and possibly even pair credit lines with other settlement forms to increase working capital benefits.

All of this depends on an effective digital customer experience that will drive these changes in B2B, as it has done in the consumer market. Fintechs are well-positioned to respond flexibly to preferences in the sector and are using data to effectively customize their approaches. The growth of opportunity then will be generated in several ways; sellers becoming aware of the benefits noted especially from a risk perspective, buyers from the perspective of increased purchasing power and instantaneous credit, and from the payment process enablers themselves - the tabits of the world, bringing awareness to the payments ecosystem through their own marketing efforts. However the word gets out, there is no doubt that the opportunities in B2B BNPL are growing and will continue to do so.

The CLA logo consists of the letters "CLA" in a bold, white, sans-serif font, set against a solid yellow square background.

CLA

Canadian
Lenders Association

A circular logo with the text "BNPL" in a bold, white, sans-serif font. The logo is surrounded by several hexagonal icons connected by thin white lines. The icons include a shopping cart, a bar chart with an upward arrow, a magnifying glass, a hand holding a coin, and a house with a dollar sign inside. The background of the entire image is a blue-tinted photograph of a person's hands holding a laptop, with binary code (0s and 1s) overlaid on the screen and keyboard area.

BNPL

A New Payments Landscape: Leveraging BNPL for B2B Transactions

SPONSORED BY

tabit

Contact us at

www.canadianlenders.org