An Introduction to Payments-as-a-Service

How subscription-based payment models combine cloud technology and superior software economics to improve margin, cash flow, and customer experience.

Paystand

What if you could cut your transaction costs by 75% while reducing the workload of your accounting staff by more than half? A California-based flooring manufacturer and distributor did exactly that.

For the company, Urban Surfaces, achieving those results involved transitioning to a fast, secure, blockchain-based platform that also gave its AR team greater visibility into its cash flow and delivered significantly better cost economics. In other words, it involved taking a new approach to longstanding challenges that have been facing the payments industry – challenges like rising transaction costs, long payment cycles that delay access to cash, and cumbersome processing tasks that waste valuable hours accounting teams could be spending on more value-driven functions. For Urban Surfaces, this new approach is cashless, feeless, and intuitive –a next-gen take on payment processing called Payments-as-a-Service.

Managing rising B2B transaction costs

For corporate clients, using commercial credit cards to pay invoices is easy, traceable, and less cumbersome than paper checks, but for companies on the receiving end, accepting B2B credit card payments comes with a cost, estimated to fall anywhere between **1.5 percent** and more than **3 percent per transaction**. In fact, according to [research from the National Automated Clearinghouse Association (Nacha)], credit card issuers earned **$7 to $8 billion** in interchange revenue from processing **$428 billion** in commercial B2B credit card payments in 2015 alone. And, these fees have only continued to climb – Visa and Mastercard have repeatedly raised interchange rates and recently raised them another 40 basis points for some commercial transactions. What's more, they [already announced plans] for raising interchange fees again in 2022. For the companies paying these costs, accepting credit cards is a faster way to access cash than paper checks, but is the speed of credit card payments worth the tradeoff of giving up more than 3 percent of your revenue in transaction fees?

1.5% - 3%+
PER TRANSACTION

$7B - $8B
IN INTERCHANGE REVENUE

Nacha's research found that most companies agree to spend 2 to 3 percent of sales or more on credit card fees to "keep a client happy" and avoid losing an account to a competitor who accepts cards. So, what if rather than trying to match the services that competitors offer, companies took a different approach?

There are other payment technologies that can transform B2B transactions by giving them the same flexibility of fee-based card payments – technologies that are entirely feeless and provide clients with increased visibility into the status of their payments. To date, there are many innovations that make this possible, especially as businesses everywhere accelerate their move towards digital transformation. Cloud technology has long been used to enable faster developments in data aggregation, improve scalability, and deliver more flexible resources for enterprises. However, while almost every other facet of business operations has been transformed by the Cloud, payment technology has not seen much of an update for decades. This is largely due to the fact that the legacy banking system is tied to a per-transaction fee structure and paper-heavy processes that keep finance teams bogged down in menial tasks.

Payments-as-a-Service upends the traditional fee-based payment model

There are new innovations on the horizon. For example, blockchain technology is set to drive meaningful change in the commercial finance industry by facilitating payments that are immutable, secure, and do not rely on a central authority to be processed. Blockchain has the ability to power commercial transactions without the need for a trusted third party or the legacy payment system, and the combination of blockchain and cloud can be used to help businesses process payments without the need for credit cards and their exorbitant fees. Plus, there are also significant developments in automation that are designed to help finance teams streamline core elements of accounts receivable (AR) processes.

The Paystand Bank Network is built on these principles, and provides digital payment options such as real-time fund-verified transfers, e-checks, and debit cards all for a low monthly fee – instead of forcing businesses to rely on punitive transaction costs to collect their revenue. With a low-cost subscription model,

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companies know their costs upfront, and when transaction volume climbs, the low monthly cost remains constant and AR costs as a percentage of revenue decline. This means that as sales increase, companies can reap the rewards of higher revenues – rather than recalculate the costs of their higher fees. In short, companies who adopt Payments-as-a-Service technology benefit from a business model that is aligned with their own growth goals. They also benefit from continuous updates to the software platform that deliver enhanced features instead of being locked into an outdated, transaction-based network that has no incentive to improve features or costs. The digital payment infrastructure that is delivered via the Payments-as-a-Service platform allows companies to then realize several key benefits, which we'll explore in more detail with real-world case studies.

Benefit #1: Faster access to cash

Denver-based advertising agency Choozle slashed receivables that were more than 90 days late by half, cut its DSO by 1/3 in six months, and shrunk the time required to produce invoices from four days to two. Ushering clients toward efficient, digital payment methods was only part of its faster time-to-cash story. Choozle's results were achieved by combining the flexibility of multiple digital payment options with user interface features designed to elicit action from clients. What type of features triggered faster payments?

- Automatically generated invoices that ensured timely invoice delivery.
- "Single-click" payment features that allowed clients to pay directly from the invoice.
- "Open-invoice" functionality that lets clients see all open invoices and pay per-line item.

For Choozle, this payment functionality was achieved through integration between NetSuite and Paystand's Payments-as-a-Service platform. A NetSuite and Payments-as-a-Service integration means digital payments, invoice status, and finance operations are all seamlessly intertwined. Dashboards enable the Choozle team to check the status of incoming payments multiple times a day and manage cash flow more dynamically so that they can quickly seize new opportunities. With greater visibility into cash flow and invoice status, the team can easily view which payments are late, proactively send automated reminders, and better model and forecast future cash positions.

Benefit #2: Zero-touch payment processing

Digital payments coupled with user-friendly payment features also translate into less cumbersome processing tasks for AR teams. How? When an invoice is generated in NetSuite, for example, a workflow can automatically send an email invoice to the customer. Customers can pay the invoice directly through an embedded link, and the payment will be automatically reconciled in both NetSuite and the Payments-as-a-Service platform. This is what we mean by “zero-touch.”

Here is what zero-touch looks like in practice:

52 LESS HOURS SPENT PROCESSING PAYMENTS

For cloud communications company Juxto, self-service payment features integrated with financial operations translated into **52 less hours per quarter** spent processing payments. Invoices that the AR team used to prepare in US and Canadian currency and then manually reconcile are now automatically generated and reconciled with the company’s bank accounts.

25% LESS PAYMENT RELATED PHONE CALLS

At a Maine-based veterinary technology company that merged to form Covetrus, AR teams field **25 percent less** payment-related phone calls and have been able to **grow transaction volume by 11 percent without adding headcount**.

TIME REQUIRED TO CLOSE BOOKS WAS CUT IN HALF

Choozle has seen **invoice volume double** without materially doubling the accounting team, and the time required to close the books, which previously took 15 days, has been **cut in half**.

Benefit #3: Distributed security

Any laundry list of concerns that keep CFOs and AR professionals up at night would be incomplete without mentioning the security threat of sophisticated cybercriminals who seem to find their way into payment networks as if they have been given a key. When a transaction processing network is underpinned by the security of the blockchain, it automatically creates a secure, auditable, unalterable record of every transaction on the network.

How does [blockchain technology] enhance the security of your financial transactions? It's a peer-to-peer distributed ledger that maintains a record of all transactions that are made since the date of its creation. Encrypted copies of all transactions are stored by all network participants in multiple distributed places. To alter a blockchain, hackers would have to identify and hack multiple computers on the same chain. This revolutionary technology infrastructure ensures that transaction records are automatically secured and cannot be improperly modified.

Boost margins and ROI with Payments-as-a-Service

As you can see, Payments-as-a-Service means more than just faster, cheaper payments – it's a new way of doing business. Payments-as-a-Service is for companies that want to grow faster than they can hire, onboard, and train new employees. It's a solution for companies that want immediate visibility into not just their current finances, but their forward-looking pipeline. It's for companies that are looking to predict and control expenses in a faster, more streamlined, digital environment without paying exorbitant fees. Payments-as-a-Service enables companies to take charge of their finances with a flexible business model that is compatible with the current business environment.

Ready to learn how Payments-as-a-Service delivers superior economics to your business?

Get started at paystand.com to learn how your company and customers can save over 50% on AR costs and benefit from a fully automated cash cycle.

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