EMBEDDED FINANCE TRACKER®

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How embedded finance can help digital-first businesses eliminate B2B payment frictions

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EDITOR'S LETTER

The pandemic significantly accelerated the transition to digital-first financial services, bringing enormous changes and massive opportunities to consumers and businesses alike. FinTechs focused on driving new experiences into consumers' hands, making spending, saving, borrowing, managing and investing money easier and more intuitive for users.

The next phase of this transformation has seen competition for consumer engagement becoming embedded into the technology stacks of businesses' digital operations. Buy now, pay later (BNPL) embedded finance solutions, for example, have been estimated to increase retail conversion rates 20% to 30% and ticket sizes between 30% and 50%, with consumers benefiting from spreading out payments and retailers benefiting from offering financial solutions to customers directly at the point of need.

At the same time, the pandemic forced businesses across a multitude of verticals to reevaluate their internal business operations. Observing the revenue growth potential, decision-makers at many companies began to contemplate how they could apply embedded digital financial solutions to their business-to-business (B2B) finance practices as well. This shift toward embedding financial solutions into B2B businesses' technology stacks is still quite nascent. Business payment solutions have been quick to launch, utilizing application programing interfaces (APIs) as well as third-party infrastructure providers, but the journey has only just begun.

For businesses looking to serve their B2B customers better and fuel revenue growth, there is an entire suite of financial solutions they can weave into their processes. These include preapproved credit lines so that B2B clients can have immediate access to funds when they need it the most — typically, when buying goods and services from their suppliers at the point of sale (POS) — and a multitude of others, including invoice financing and insurance.

This inaugural edition of the Embedded Finance Tracker®, a PYMNTS and Galileo Financial Technologies collaboration, looks at the growth of embedded finance and how businesses can leverage its solutions to keep up with the shifting needs of their clients, partners and vendors.

THOUGHT LEADERSHIP TEAM

PYMNTS.com

Feature Story

Ordoro: Why Implementing Embedded Finance Can **Bring Swift Funding To eCommerce Merchants**

SELLING ANY TYPE OF PHYSICAL GOODS, FROM CLOTHING AND JEWELRY TO MEDICAL EQUIPMENT,

means companies must maintain a steady pool of inventory — a necessity that requires funds to ensure products are available for customers to purchase. Any hiccup in this most basic element of the supply chain could lead to frictions that are especially detrimental for merchants attempting to remain competitive within the increasingly saturated eCommerce world, said Jagath Narayan, CEO and co-founder of eCommerce shipping and fulfillment software provider Ordoro.

"The existing [eCommerce] merchants, people who were already established by 2020, saw a big spike in their [order] volume, so they started … shipping a lot more," he said in a recent PYMNTS interview. "We also noticed that a lot more people have decided to get into the industry."

Offering the smooth, seamless ordering and shipping experiences their customers now expect requires both established and emerging merchants to have swift access to the capital needed to keep their inventory stocked and products on the move. Embedded finance is one method of providing key benefits within this space as the need for businesses to have immediate access to financing grows imperative.

CREATING SPACE FOR EMBEDDED FINANCE

U.S. eCommerce sales ballooned to $870 billion by the end of 2021, representing a 14% increase from 2020 as well as a significant opportunity for businesses seeking to expand their revenue and brand cachet.

While this means increased potential for digital merchants to engage and retain new customers, competition to access available capital has grown increasingly fierce. This has sparked a rising interest not only among merchants but also among FinTechs and other financial players, in finding or offering access to these funds with more ease and convenience for today's online businesses.

"So, let's say you need $50,000 in capital to launch a business; where do you go?" Narayan said. "Traditionally, you would go to a bank with [your] business plan, but that has changed."

Companies seeing rapid order volume increases also can face challenges that could leave them unable to meet the demands of their customers, further emphasizing the need for quick, effective funding. Smaller merchants that may have seen their order volumes jump five times from pre-pandemic levels are left scrambling to find the necessary labor to pack and ship those orders as well, Narayan explained. Embedded finance options, which enable merchants to find and gain access to necessary funds directly on the platforms on which they are already managing their shipping and fulfillment needs, therefore could benefit businesses as they work to keep pace with growing demand.

"There may be a lag between you getting the cash, and then you being able to actually pay for all the services," Narayan said. "So, that's where there's an opportunity for [providers offering] the embedded finance model … to get in and help you out from an operational point of view."

Interest in embedded finance is spiking in the eCommerce industry as awareness of its benefits grows. The need to connect payments more closely to the rest of the supply chain process is becoming more urgent for merchants, creating an impetus for key payments providers to merge their services with shipping and fulfillment players such as Ordoro.

KEEPING PAYMENTS CONNECTED

Bringing embedded finance onto its own platform is of future interest for Ordoro, Narayan said, though the company has no set plans for the technology's integration. Partnering with a third-party embedded finance player could enable intriguing advantages for both companies, he added. Offering payments can help make the experience more connected for companies, while platforms such as Ordoro offer key insights into merchants' cash flows and shipping habits, Narayan said. The industry, therefore, may see a future in which merchants' purchasing orders, shipping and payment processes, as well as insights into the companies' potential need for future capital, are all displayed on one platform.

"I think, eventually, we could see a place where all of this is merged together and a larger financing company could look at all of these parameters, because every single aspect, every single variable here is giving them more data on the credit worthiness of the merchant," he said.

Keeping a close watch on how embedded finance could lead to key benefits for merchants and why it is important to offer such options is essential for both emerging and established eCommerce businesses as well as for today's FinTech and payments players.

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Q&A

SETH MCGUIRE
Chief Revenue Officer

GALILEO

Consumers have increasingly turned to digital channels for more of their banking and payment needs. In what way do you think individuals' growing familiarity with embedded payment experiences is impacting what businesses expect out of their own payment experiences?

The invisibility of embedded payments is a critical piece of their value proposition. When you think of Uber, the payment part of that experience is so seamlessly integrated in to the overall ridesharing experience that the consumer doesn't ever have to think about it. It just works. The rise of these invisible payment processes has been an enormous factor in the adoption of many new digital experiences — especially for consumers. Businesses are waking up to that fact and are asking how they can benefit from those same advancements. Some of this can be done through simplifying their own processes; some requires integration of payment systems and technology that can be combined to improve their existing processes. This opens up enormous potential for businesses to drive the same benefits from embedded experiences that we have all seen as consumers.

In what ways have businesses' B2B finance needs shifted over the past few years, and how can embedded finance help them meet those emerging needs?

Businesses have evolved to be more digital. Companies — whether large or small — are now just as likely to order goods, products or services online as they are to physically go to a depot or supply location. With that shift to digital spending has come new opportunities to improve the sales process and give customers better experiences. Part of that opportunity is due to the faster, easier, recurring nature of embedded systems, but part of it is also the additional data that can be captured and leveraged in these new processes.

One great example here is POS lending for businesses. This can take on many forms, but it has historically been a point of great friction. If you're selling to [small to mid-sized businesses] that require financing to complete large scale purchases, you either need some prearranged agreement with the merchant, or to support a loan referral scheme, which can include moving off your own system and to a third party or even getting into offline paperwork, approvals, [and so on]. That's a nightmare from an operational and execution standpoint and can result in lost or delayed sales.

But by incorporating embedded finance solutions into your own [customer relationship management system], with the underwriting process backed up by the data you hold on the buyer, [including information on] their operations, scale [or] creditworthiness, you can instantly action a loan to the business buyer, enabling them to do the transaction they want to do at the time they want to do it. Layered on top of this sale, you can offer additional products [such as] insurance, cross-sales [or] hedging of future purchases. Embedded financing means you own the experience and maintain the client relationship through the entire sale.

How can embedded finance help improve businesses' relationships with their suppliers or vendors? What role do technologies such as APIs play here?

We've just outlined one opportunity above — more seamless lending at POS — but that's just one area. A very significant opportunity revolves around how businesses become better partners for their B2B customers — in the same way that FinTechs aim to be partners for their consumers by helping people get their money right.

By understanding where business customer pain points lie and solving those challenges with financial solutions that are built into the customer experience, a company enables much deeper and longer-standing relationships. First, the easier it is to resolve financial matters, the more time is left for relationship and partnership. Second, the more insight and data both parties have around those transactions and items, the greater the ability to surface and identify areas to further build upon. Lending, as mentioned above, is a great example of that, because the signals occur during the purchase and sales process. By anticipating what access to finance your customers will need and can afford, [which] helps them drive their own business, and then offering it seamlessly within the [customer relationship management system] you use to interact with them, you make a positive contribution to your clients' operations, which will keep them coming back for more. You also speed your own sales, improve your conversion and expand your market of potential customers.

APIs help by making this interaction faster, but they are just a technological tool. Where the real magic happens is how you integrate various API-driven embedded financial solutions into one combined offering and pair that offering with a great user experience. That way, you can complement the finance or lending you offer with other critical elements like business insights.

What are some of the challenges businesses face when improving their B2B or internal payment processes, and how can technologies such as APIs help?

I think the biggest challenge businesses have — although it's really an opportunity — is around integration, and here it's as much about the value of human experience as it is about the technology.

For example, an API-powered lending solution embedded into a business's tech stack is less effective if it is just one thing. However, if it is paired with a flexible digital banking platform, it enables the business to both build customer insights — such as how much the customer might need to borrow, for what purpose and what the risk to repayment is — and to ensure tailoring [is added] into the product being offered, down to the segment of just one. With that additional functionality, you can anticipate the customers' needs and offer them the right, affordable, manageable solution — a solution that is fitted to their business needs and maturity.

But to get to that point, you need partners in the embedded finance space who can tie together all the products and services a business might want to offer to their customers in the right way. As a company offering this, you want to be able to focus on the experience — how your clients, suppliers [and] vendors interact — and on the outcomes — how this improves the experience, such as driving greater sales, client NPS scores, [and so on]. That means having a trusted partner to tie together all those elements and provide the guidance necessary to make them all work perfectly, removing that work and maintenance from your own shoulders. Getting the right partner is the most critical piece of the puzzle.

PYMNTS Intelligence

How Embedded Finance Can Help Businesses **Streamline Their B2B Payment Processes** And Stay Competitive

The pandemic prompted businesses from nearly every vertical to reconsider the way they conduct operations. Whether financial entities, retailers, travel firms or healthcare providers, many companies looked to digital solutions to innovate their B2B payments, seeking ways to streamline internal processes as well as offer cost-friendly payment options to suppliers and other key business partners.

Amid these developments, embedded finance garnered keen interest, with its value for B2B and business-to-consumer (B2C) applications combined now expected to expand rapidly by 2030.

Embedded finance allows businesses to offer sophisticated payment and banking services directly to their customers and suppliers, removing many of the historic frictions associated with B2B payments, especially as these transactions are typically made in real time. Embedded finance experiences, which enable payments to be integrated into previously nonfinancial processes or platforms, have become increasingly popular on the consumer side, with 23% of consumers in a recent study reporting use of BNPL, for example — an embedded payment method that splits larger purchases into bite-size installments at the POS. Data from PYMNTS' latest ConnectedEconomy™ research also shows that the popularity of online and mobile banking is continuing to rise, with 35% of those surveyed stating they make transactions online using mobile apps from their financial institutions (FIs) at least weekly. More than 70% of European brands are looking to launch embedded finance features in the next two years, and industry analysts predict that soon these tools will be all but ubiquitous, making them table stakes for businesses to compete.

Companies could bring their vendors and partners many of the same benefits that consumers enjoy by upgrading their B2B payment offerings with embedded finance options, thereby gaining significant advantages over their competitors. This month, PYMNTS takes a close look at how businesses' payment needs are shifting due to recent trends and how embedded finance can help companies stay on top in a digital-first world.

CAPTURING THE EMBEDDED FINANCE ADVANTAGE

The draw of embedded finance is becoming clearer for businesses as their consumers' banking and payment habits become more digital. Consumer-facing use cases have paved the way for businesses to follow suit, with individuals now expecting the convenience of retail experiences in everything from finding new insurance providers to obtaining mortgages. Many consumers also tried telehealth services for the first time during the pandemic, trusting both their medical and financial data to online healthcare providers. PYMNTS' latest ConnectedEconomy™ survey, conducted at the end of November 2021, found that approximately 22% of consumers had used an online or a mobile app to order and pay for prescriptions in the 30 days prior to the survey.

Embedding B2B finance is thus becoming more intriguing for businesses as they look to match their business partners' experiences to those of consumers. Recent PYMNTS data found that 42% of companies surveyed reported a lack of supplier portals — typically third-party platforms that enable them to connect online with their suppliers or vendors — as a pain point in their B2B payment processes, with 15% citing this gap as the most significant frustration they faced.

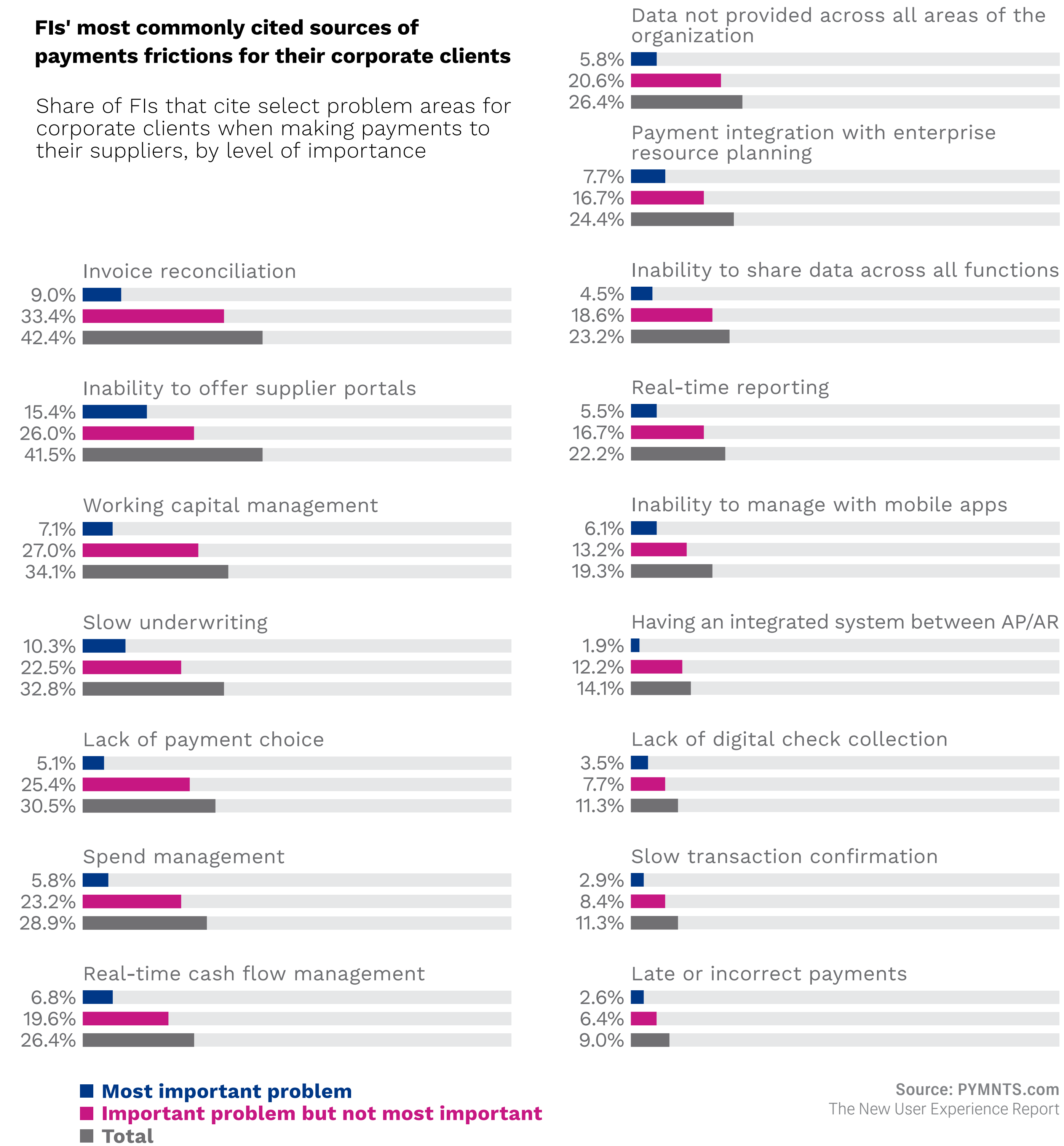
Implementing embedded finance could enable businesses to offer their suppliers streamlined, frictionless access to digital payments without the need to send them to third-party portals or platforms as well as financing or extended warranty options, making the B2B payment process more efficient and less costly for both parties. Embedded finance is especially attractive for small to mid-sized businesses, given the opportunities for decreased costs, increased liquidity and improved supplier relationships. Another recent study predicted that the global embedded finance market for these smaller businesses alone will reach $124 billion by 2025.

As embedded finance solutions become more popular with consumers, B2B demand for these offerings will undoubtedly grow. Finding the right partner can help businesses easily bring embedded finance into their B2B and internal payment processes to stay ahead of the curve.

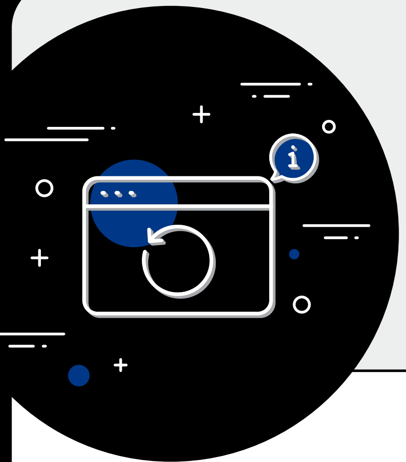
FIGURE 1:

FIs' most commonly cited sources of payments frictions for their corporate clients

Share of FIs that cite select problem areas for corporate clients when making payments to their suppliers, by level of importance



Source: PYMNTS.com
The New User Experience Report



NEWS & TRENDS

BRINGING **EMBEDDED FINANCE** TO B2B PAYMENTS

FINANCIAL PROFESSIONALS SHIFT TO DIGITAL ALTERNATIVES AS CHECKS PROVE COSTLY

The growing number of businesses looking to move to digital channels to meet their B2B payment needs may be driving the value of the embedded finance market, especially as manual processes become more costly. One recent report noted that the average number of checks financial professionals processed monthly has steadily declined in the past seven years, dropping to approximately 500 to 999 paper checks processed monthly in 2022 from about 1,000 to 1,999 in 2015. Despite this decline, the costs of either issuing or processing checks have proved problematic, particularly for smaller companies. Though the median cost for paper checks has not changed since 2015, the arrival of quicker, less expensive methods such as automated clearing house payments, which typically cost 50% less than paper checks, means that manual methods are becoming less beneficial to businesses looking to boost efficiency.

EMBEDDED FINANCE MARKET EXPECTED TO REACH VALUE OF $138B BY 2026

Interest in the potential of embedded finance for both B2B and B2C applications has risen steadily as businesses' and consumers' payment and banking preferences have become more digital. The embedded finance market will reach more than $138 billion in value by 2026, rapidly expanding from its $43 billion valuation in 2021.

This expected growth could also impact how both B2B and consumer-facing payments are conducted in the near future. Consumers are not only used to invisible payment experiences, such as in-app payments for ridesharing or one-click ordering on eCommerce sites, but also becoming more trusting of the idea of businesses, rather than banks, managing their payments. Other reports point to consumers' growing comfort with seeing payments or financial services offered by nonbanks, with data from financial provider Galileo Financial Technologies showing that 48% of consumers are willing to "bank" with streaming platforms. Yet another study of German consumers found that 61% of respondents would be willing to use financial products from retailers such as Lidl or IKEA, presenting an intriguing glimpse into how the financial services ecosystem of the future may look.

GLOBAL REWARDS TEAMS UP WITH GALILEO TO LEVERAGE APIs FOR B2B PAYMENTS

Spend management platform Global Rewards recently partnered with financial technology provider Galileo Financial Technologies to innovate its B2B payment solutions. The partnership will enable Global Rewards to access Galileo's cloud-based technology platform and APIs, streamlining the payments process for the former's clients and allowing them to move away from manual and paper-based B2B solutions in favor of digital tools. Such a shift can also cut costs for businesses — a factor that makes API-supported finance solutions attractive to many industries.

NEXT-GEN PAYMENT SHIFTS

CONSUMERS EXHIBIT INCREASED EMBEDDED PAYMENT USE DESPITE UNFAMILIARITY WITH THE TERM

Businesses may be gaining interest in embedded finance's potential for their B2B payments because of its popularity in consumer transactions. Consumers are increasingly tapping embedded finance solutions, including payments made via social media, BNPL options and mobile. One recent study found that 23% of United States adults reported making payments through social media platforms, with the same percentage saying they had utilized a BNPL or installment payment solution for their transactions.

The use of platforms with in-app payments, such as ridesharing services, has also become popular among consumers, indicating strong adoption of embedded finance — even if consumers may not be familiar with the term itself. Only 11% of consumers said they had heard of embedded finance, for example, despite 32% using ridesharing platforms such as Uber.

FIs INCREASINGLY TAP APIs FOR NEXT-GEN BANKING

Banks are also examining how APIs may be critical to offering the embedded finance or connected banking experiences that businesses and consumers have come to expect. APIs are an essential component enabling many of the financial features consumers are using more frequently, such as mobile wallets or aggregated spending apps that directly connect to users' bank accounts.

APIs can also help streamline B2B payments in the same manner, leading more FIs to look to the technology when developing innovative new products or offerings. More than 90% of banks or financial services surveyed in one report plan to utilize APIs to boost their revenues in the coming year, while 75% plan to rely on the technology to help them drive customer conversion.

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Bringing embedded finance to the B2B world

How consumers' digital-first payment preferences are pushing companies to innovate their B2B processes, and why embedded finance is key to doing so

Digital is swiftly becoming consumers' preferred channel.

Consumers are heading online for everything from banking to shopping to telehealth appointments, turning to digital channels first to meet many of their daily needs.

43%

Portion of consumers who use an app or website to make appointments, set reminders or pay their healthcare providers

30%

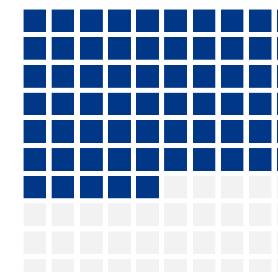
Share of consumers who make transactions using their banks' mobile apps on a weekly basis

Consumers' changing preferences are leading to B2B innovation.

Consumers' growing adoption of digital tools is also prompting business leaders to reexamine their B2B payment processes and how they can make the jump from manual to virtual methods, though complications linger.

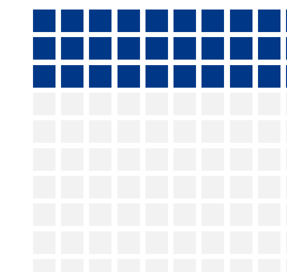
65%

Portion of companies that offer digital B2B payment methods



30%

Share of businesses that believe their current B2B payment solutions are either "very" or "extremely" effective in solving key friction points

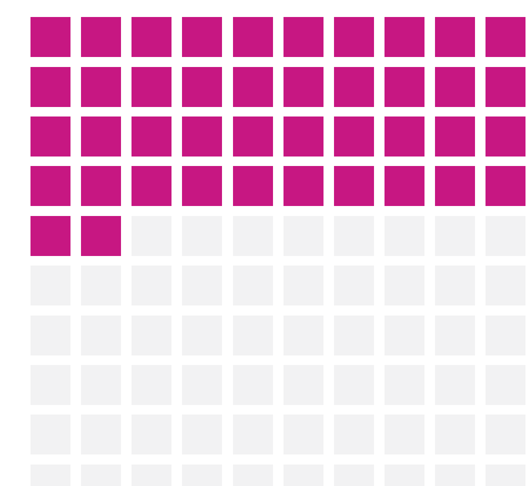


Embedded finance could be key to B2B innovation.

Bringing embedded finance tools into their B2B processes could help companies streamline their payments and reduce key friction points.

42%

Share of companies that cite a lack of supplier portals as a key B2B pain point



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PYMNTS.com 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.

galileo

Galileo is a leading financial technology company whose platform, open API technology and proven expertise enable FinTechs and emerging and established brands to create differentiated financial solutions that expand the financial frontier. Galileo removes the complexity from payments and financial services innovation by providing flexible, open API building blocks and a secure, scalable, future-proof platform. Trusted by digital banking heavyweights, early stage innovators and enterprise clients alike, Galileo supports issuing physical and virtual payment cards, mobile push provisioning and more, across industries and geographies. Headquartered in Salt Lake City, Galileo has offices in Mexico City, New York City, San Francisco and Seattle. Learn more at galileo-ft.com.

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