Business solutions:
How to eliminate barriers and create new opportunities for using corporate cards
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Introduction: We develop products and solutions for corporate clients of all segments - from micro and small businesses to the largest Russian and international corporations. The growth rate in the corporate segment exceeds the development of trade in the segment of individuals. At the same time, there is a high potential for penetration of card products into settlements between corporate clients, replacing cash payments and transfers from one account to another. The corporate card market in Russia lags far behind developed countries (USA, Canada, Australia) in terms of the share of card use in total payments, more than 2.5 times behind. At the same time, the share of cash use in Russia is significantly higher, and the range of outlets (merchants) in which it is possible to pay with a B2B card is limited. The main needs of modern B2B clients are speed, convenience and simplicity in obtaining the necessary documents for accounting and finance.

What is the B2B segment in Russia. Represents the interaction between legal entities on a wide range of expenses, such as purchasing equipment, repairs, purchasing consumables (from gasoline to stationery and uniforms), transportation costs, staffing and marketing/advertising services - any goods, products and services necessary for the business to function. In the current realities, payment occurs mainly in bills or in cash. Today, in Russia less than 50% of legal entities and individual entrepreneurs have corporate cards, and only 20% of them use them for cashless payments. Thus, 90% of all customers do NOT use the card for non-cash payments, which is a huge potential for growth.

Technological trends: basic card solutions, business scaling through large partnerships, ecosystems, virtual maps and digitalization, reporting and control of operations.

Opportunities to use (ideas for research and development). We are in search of concepts, solutions, products and services that are able to remove barriers and create new opportunities for using corporate cards.

Removal of barriers to the use of corporate cards:

- The transition from the calculation of cash and payment on the account (bills) for payment by cards and online payments. How can I encourage a corporate client to pay for goods/services with cards?
- Strengthening value/product offerings for all business segments (small, medium, large)
- Simplification of reporting for legal entities, automating the receipt of invoices as a mandatory document for tax reporting, accepting VAT credits for payments made on the card, ensuring acceptance of payments in new categories and business and trade segments
- Integration with accounting/ERP/CRM systems to provide customers with extended information for operations performed using cards. Reporting for operations through the systems with which the UL are accustomed to working, which will simplify accounting within companies. It is also possible to implement the functionality for billing within accounting applications between various legal entities and paying them with corporate cards.

Increased efficiency and new opportunities in the field of corporate cards:

- Make it easier to perform everyday tasks for corporate customers by simplifying and speeding up the payment process;
- Simplicity, ease of purchase, one-click purchase for customers
- Increased penetration of corporate cards into existing customers due to: 1) educational work 2) encouraging customers to use cards to pay expenses in new industries to replace bank transfers and cash.
- Involving customers in the use of cards, and increasing card spending - working with the current card portfolio of customers. The growth of card indicators can be achieved by increasing the number of active cards, encouraging customers to spend more on cards, spend from new partners and suppliers. Also, growth is possible due to targeted marketing campaigns and joint projects with partners and retail outlets (discounts, promotions, gifts)
- The development of the industry. The ability to use cards to pay for services in new categories, building platforms for instant transfers from card to card between corporate clients, the development of ecosystems and new channels will lead to an increase in the average number of transactions per card
SIZE OF THE MARKET OPPORTUNITY - TOTALSPEND

Consumer Business generates largest spending, while Energy & Resources boasts highest spend per company

Overall Spend in USD mn - Total Spend for All Sectors Amounts to USD 1,543 bn

Legend:
CB = Consumer Business
ER = Energy & Resources
RC = Real Estate & Construction
MF = Manufacturing
TL = Transportation & Logistics
LSHC = Life Sciences, Healthcare & Chemicals
TMT = Technology, Media & Telecommunications

Spending by Payment Method

USD244 billion
Opportunity (Cash and Check)

*Source: B2b and b2g Payments in Russia: Opportunity Assessment Report, Euromonitor consulting, 2018
SIZE OF THE MARKET OPPORTUNITY - SPEND BY TYPE
Direct and indirect costs as well as B2G costs provide opportunities for cash to card migration

Total Company Expenses by Type

- Travel & Entertainment: 3.8%
- CAPEX: 21.6%
- Direct Costs: 36.0%
- Indirect Costs: 21.6%
- Taxes: 10.6%
- Permits: 3.7%
- Fees & Fines: 2.6%

Types of Spending

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel &amp; Entertainment (T&amp;E)</td>
<td>All spending on hotels, airline tickets, per diems while travelling and supplier/client/company staff entertainment</td>
</tr>
<tr>
<td>CAPEX</td>
<td>Ad hoc expenses of usually large value. These are made when companies execute growth plans or revamp operations</td>
</tr>
<tr>
<td>Direct Costs</td>
<td>Include workers’ wages and suppliers’ payments for material used in providing goods and services</td>
</tr>
<tr>
<td>Indirect Costs</td>
<td>Include overhead expenses (management salaries, rent and utility payments excluding labour) and office supply expenses</td>
</tr>
<tr>
<td>Taxes</td>
<td>Includes income, sales, payroll, regulatory, and other taxes incurred by local and national governments</td>
</tr>
<tr>
<td>Permits</td>
<td>Costs for government licence to operate, occupy, or otherwise conduct business-related activities</td>
</tr>
<tr>
<td>Fees &amp; Fines</td>
<td>Service charges incurred for permitted government services, such as customs clearance and handling fees, or penalty costs incurred for non-permitted activity</td>
</tr>
</tbody>
</table>

*Source: B2b and b2g Payments in Russia: Opportunity Assessment Report, Euromonitor consulting, 2018*
T&E CHALLENGES & SOLUTIONS

SMEs are used to claiming back T&E expenses therefore additional corporate cards benefits should be communicated to attract new customers

**Challenges**

**Card expense too high due to limited travelling**
Small and medium-sized companies’ employees are not often sent on business trips. Interviewees claim that only up to 10% of employees travel on a regular basis, therefore, sustaining a corporate card is too expensive for the company.

**Expense analysis and management**
Small and medium-sized companies that prefer checks and cash for Travel & Entertainment due to the convenience and availability in terms of usage. However, they lose control of employee expenses and other additional benefits that they might not even be aware of.

**Traditional payments**
Russian companies have strong payment traditions that focus on cash and wire. In addition, small and medium-sized companies prefer such payment methods due to lack of incentive to digitalise as well as limited knowledge. This heavily reflects less often paid expenses, such as T&E.

**Solutions**

For small and medium-sized enterprises Visa can offer alternative corporate card plans, for example:

- Reduce processing/collection fees
- Offer additional benefits
- Propose financial system integration

Visa can offer its services for, for example, a trial period for the company to experience the benefits of corporate cards, such as:

- Spend analysis
- Expense tracking
- Expense restrictions
- Online operation solutions

Visa can work towards two key points:

- Education of Russian companies about digital card payment benefits, such as simple usage, easy tracking, etc.
- Promotion of infrastructure development to simplify the switch towards card payments of any type and size companies.

*Source: B2b and b2g Payments in Russia: Opportunity Assessment Report, Euromonitor consulting, 2018*
Companies across all sectors demand speed and convenience

- **Secure and easy to use**
  - Russian companies demand secure and easy to use payment systems for efficient operations.
  - Given security breaches and the complexity of numerous business relationships of small and medium-sized consumer businesses, they desire to have more secure and easy to use systems.

- **Speed to increase process efficiency**
  - Project-based companies demand fast payment process to optimise their project cycles.
  - Small project-based companies, e.g., consumer business, manufacturing, etc., demand fast-operating payment systems to optimise project timing that results in faster production process.

- **Wire preferred**
  - Wire is seen as most convenient method for business daily usage due to speed, convenience and traceability.
  - Companies across all sectors confirm their interest in digitalising payments in order to make the process faster, more convenient and traceable. However, they see Wire as the most suitable method.

- **Adoption of procurement systems**
  - Tech-related sectors embrace procurement systems usage driven by EIPP.
  - Companies are already adopting procurement systems, mainly in Technology, Media & Telecommunications. Electronic Invoice Presentment and Payment (EIPP) is the most demanded service.
While audit trail is an important reason for using bank transfers, cards are preferred for larger amounts, discounts and extended settlement timeframe (‘revolving period’)

### Reason for preference (%)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Bank Transfer (A)</th>
<th>Cash (B)</th>
<th>Credit card (C)</th>
<th>Debit card (D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample</td>
<td>96</td>
<td>57</td>
<td>19</td>
<td>31</td>
</tr>
<tr>
<td>Convenience</td>
<td>76</td>
<td>81</td>
<td>68</td>
<td>84</td>
</tr>
<tr>
<td>It’s safety</td>
<td>49</td>
<td>46</td>
<td>53</td>
<td>42</td>
</tr>
<tr>
<td>It’s widely accepted in all sectors</td>
<td>32</td>
<td>44</td>
<td>37</td>
<td>42</td>
</tr>
<tr>
<td>It can be used during travel</td>
<td>18</td>
<td>23</td>
<td>37</td>
<td>26</td>
</tr>
<tr>
<td>It’s appropriate for large amounts</td>
<td>40 B</td>
<td>11</td>
<td>53 B</td>
<td>39 B</td>
</tr>
<tr>
<td>I get discounts for immediate payment</td>
<td>6</td>
<td>2</td>
<td>11</td>
<td>16 B</td>
</tr>
<tr>
<td>It provides an audit trail</td>
<td>35 BD</td>
<td></td>
<td>32 B</td>
<td></td>
</tr>
<tr>
<td>It’s suitable for international use</td>
<td>10</td>
<td></td>
<td>21</td>
<td>13</td>
</tr>
<tr>
<td>It’s a more modern way to pay</td>
<td>41</td>
<td></td>
<td>53</td>
<td>48</td>
</tr>
<tr>
<td>It’s most suitable for online payments</td>
<td>37</td>
<td></td>
<td>26</td>
<td>42</td>
</tr>
<tr>
<td>It gives me a credit period</td>
<td>13</td>
<td></td>
<td>42 A</td>
<td></td>
</tr>
</tbody>
</table>

Sample (total) 205

*Source: Russia Market research report, TNS MENA, 2018*
Small and medium-sized companies are open to digitisation and modernisation of their payment methods, yet guidance and education is needed

**Demand side**
- Russian corporate banks have not created educational programmes for SMEs about the tools they can offer.
- Russian government is introducing cash usage limitations. However, incentives for non-cash payments are limited.
- Russian corporate banks offer limited advisory services as to how to manage and optimise frequent payments.

**Supply side**
- Russian companies state that they have limited knowledge of digital payments capabilities.
- Companies across all sectors in Russia remain cash users due to the shadow economy and potential for tax evasion.
- Russian businesses operate in numerous partnerships that complicate transaction processes.

**The Gap**
- Knowledge gap between businesses needs and corporate banks capabilities.
- Government lacks cash usage limitations, expertise and incentives to promote payment digitisation.
- Unfulfilled management advice for corporate bank customers adjusted to Russian business environment and services.

*Source: B2b and B2g Payments in Russia: Opportunity Assessment Report, Euromonitor consulting, 2018*
SME-focused tech players are changing the game. Global partnerships

*Disruption is already happening, at scale in the SME segment, representing both an opportunity and a threat.*
And what do customers need?

- **Convenience**
  Payments should be convenient for the final recipient

- **Costs/Privileges**
  Reducing costs for a company or obtaining privileges

- **Guaranteed payments**
  Confidence for the supplier to receive funds

- **Security and control**
  Control over expenses of company employees

- **Crediting**
  Improved cashflow

- **Data analysis**
  Expenditure visualization, customer data management

- **Simplification of procedures and integration**
  Improving the performance and speed of product delivery

- **The relationship between buyers and suppliers**
  Ensuring uninterrupted and convenient payment methods
Corporate debit cards: a convenient tool for cash deposit and urgent miscellaneous payments

When
- For smaller goods (office supplies) and services bought in stores (detergent, toilet paper etc.)
- For some Pay on Delivery food suppliers (food mostly)

Who
- Top management only. Only few issue a card to anyone except owner or general managers

Why
- To decrease cost of cash transportation
- To avoid using cash

Concerns
- Safety of an account, risk of an unauthorized access

**EFT**
- Very exposed to officials and subject to taxes
- Fully transparent

**CASH**
- Regulated by government (100k limit per one contract)
- Attract officials attention
- Some vendors do not accept

**CORPORATE CARD**
- Low awareness. New and rare tool
- Risk of losing control
- Fraud risk

*Source: Russia Market research report, TNS MENA, 2018*
Cash back together with business spend on credit cards will be the key drivers for uptake

*Source: Russia Market research report, TNS MENA, 2018*
The internet is relied on to find extensive information about new suppliers

**Found by supplier**
- Groceries and restaurants are approached with a large number of different suppliers who provide varying essentials (commodities, consumables etc.)

**Research**
- Via the Internet or word of mouth: suppliers, customers, staff
  - Keeping abreast of key competitors’ activities
  - Staying updated about their sector/industry trends

**Referrals**
- Owners and managers share their impressions (especially negative feedbacks) with each other

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"We are choosing between those who have approached us"
Medium - Grocery store

"I used to look up for some interesting items for my shop on the Internet before going to bed."
Small - Hardware store

"After all this time, those of us who work in this area know each other and share their feedbacks on different suppliers"
Medium - Hardware store
Commercial cards could be a convenient payment tool/solution for the SME owner but some concerns arise about its perceived suitability for their employees

No benefit/need:
- Fully satisfied with the currently used combination (EFT + cash) don’t see any reasons for using the card

Safety concerns
- Fear of frauds and no desire to take the risks of loosing any corporate money

Lack of control
- Small and micro business owners do not delegate finance management to other people. They believe a card should be in the owner’s hands only

“We have quite a big turnover on our account which is fully controlled by me and my accountant. Such card is a risk, it can give way to hackers and I don’t want to bear such risk”

Medium - Automotive

“All money should be controlled by one person, me. I never give anyone a right to buy anything from our corporate account”

Micro - Grocery
Overview and context of the Survivor

How did I get into my industry

- Aim was to enter a business to earn money and run it at a manageable pace

Nature of the business

- Invested in traditional business streams with lower risk of failure
- Like to personally deal with many aspects of the operations especially as they operate in service sector
- Use different tricks to reduce taxes: do not issue slips, use ‘black’ cash

My management style

- Can’t always afford big salaries so they have to hire unqualified people which require control and can’t be relied on
- Focus always on minimizing expenses, where possible: do not outsource routine work, take a lead in everyday operations

My values

- Hard work, taking an active interest, not trusting others straightaway. Being grounded, not taking undue risk

Things are going worse last years. I would have quit this business, If I had known better ways to earn money for my family
Small business - Hardware store
Perceive Commercial cards as a means to access credit easily. A few can also envisage using these instead of transferring funds between their corporate and personal accounts (and avoiding fees)

• Compared to other methods of regular commercial transactions (e.g. online banking transfers or cash), Survivors do not see significant benefits of a Commercial card

  • Still, several would like Commercial credit cards to be a source of credit to cover occasional shortages

• Those who registered their business as ‘entrepreneurship’ can envisage benefitting from using commercial cards for their personal payments as it could allow them to save ‘transfer commissions’, which are charged when funds are transferred from commercial to personal accounts

“...I wish it was a way to get my hands on short term credit...such a benefit is really needed
Small business - Hardware store
Enthusiasts love to nurture their businesses

How did I get into my industry

- Their business is a beloved child they planned and care for
- Wanted to enter a stream that was personally stimulating and gratifying – have strong emotional affinity and do not plan to shut it down (even if encountering difficult times)

Nature of the business

- Niche, experiential-led
- Business that require creativity, out of box thinking
- Well educated and keen on software and modern electronics

My management style

- Team focussed, care about hiring the right employees (those who share their passions)

My values

- Believe in fair play, do not evade all taxes and want to run a transparent enterprise

My business is not about the money, it is what I do for my pleasure’

Small business - Restaurant

Source: freepik.com
Commercial cards should have cashback or rewards relevant to the business type, similar to those received on their personal cards

- Paying via EFT, Enthusiasts are ready to use Commercial cards if they have additional rewards like they have on their personal cards
- Cashback is generally regarded as the most simple and preferred benefit but
- business-specific features are also mentioned:
  - Food stores – discounts/cashback in food products suppliers (Metro C&C, Miratorg)
  - Restaurants – discounts/cashback in food products suppliers (Metro C&C, Miratorg) or other restaurants
  - Electronic and automotive stores – discounts/cashback in spare parts suppliers and service centers
- Some actively use Commercial debit cards for depositing cash on the bank account and would like to have it rewarded by bank, e.g. a gift for several amount of cash deposited using specific card

"I run a restaurant and see what is happening in other sectors and countries. I’d like a card which informed about new venues and gave me special discounts and offers.

Small business - Restaurant"
Professionals concentrate on achieving business goals in order to increase profitability and success

<table>
<thead>
<tr>
<th>How did I get into my industry</th>
<th>Nature of the business</th>
</tr>
</thead>
</table>
| • Experienced in running multiple businesses, often in different verticals  
  • Have tried and proven strategies to identify new opportunities and revenue streams  
  • Tend to adopt a rational and professional approach | • Rather than the type or sector of their businesses, onus is more on the potential opportunity size and returns |

<table>
<thead>
<tr>
<th>My management style</th>
<th>My values</th>
</tr>
</thead>
</table>
| • Open businesses with extensive thinking, calculations and deliberations  
  • Delegate routine management to proven specialists but make all strategic decisions  
  • Monitor ‘pulse’ both by formal KPIs and by personal check-ups | • Diligent, goal orientated, precise, patience, growth and success are key drivers |

“*My target is to sell this business in the future, one of the chain store already approached me but the offer is not what I am looking or aiming for Medium business - food stores*”
Currently, Commercial cards are seen to offer limited benefits. There is potential

• Being very calculative in nature, they want to be communicated with the savings on offer if Commercial cards are used more for undertaking various aspects of their business operations. Only then, would they feel that the investment in such a card is worthwhile

• Professional owners often have premium personal banking cards and use their benefits in their lives, including business trips (insurance, lounge access) negotiations (e.g. cashback for restaurants) etc.. This currently reduces the need for owners only having access to a Commercial card

  • A few like the idea of giving access to such Commercial cards to their senior finance focused colleagues as long they can set and monitor spend limits

"I have personal Black Edition card and have no need in additional corporate card with similar benefits. As for my employees, I can see who will need one and for what purpose.\nMedium business - Restaurant"