

## INSIGHTS AND ANALYSIS

# State of B2B Payments: Mexico

### OVERVIEW

Macro trends in Mexico are driving gradual shifts in the way business-to-business (B2B) payments are made. Slow economic growth means that many companies must navigate relationships from weaker financial positions. The result is that they must find ways to be more efficient and keep a more watchful eye on their cash flow.

At the same time, broader changes in consumer behavior are beginning to filter into the business space. As card payments increase among consumers in Mexico, some segments of the B2B market are following suit, pushing card payments beyond their traditional use cases of travel and purchasing.

### Tight economic conditions are impacting business relationships in Mexico.

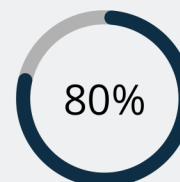
The economic uncertainty of the past few years means that, for many businesses in Mexico, cash flow optimization has gone from an important consideration to a crucial part of staying in business.

The LATAM region in general was experiencing what a Mercator Advisory Group (now Javelin Strategy & Research) report described as “tepid economic growth” before 2020, with conditions worsening with the pandemic.

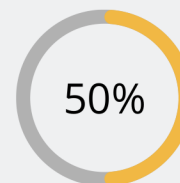
“We know that cash flow has always been a top concern for businesses in Mexico,” says Alejandro Macias, VP of Mexico Business Development at Boost Payment Solutions.

**“However, after COVID-19 and its impact on the economy, cash flow optimization has become a critical activity.”**

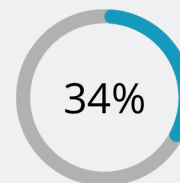
Macias adds that for suppliers in particular, making sure they have the funds available to sustain and grow their business is vital. These companies are typically smaller, with less room to maneuver month to month.



of companies expressed concern about a deterioration of their DSO



of the total value of B2B invoices that were paid overdue



of companies reported a weakening in their liquidity position

In one measure of the country's business environment, an annual Atradius survey of businesses in Mexico conducted in 2022 found that more than half (52%) of the value of B2B transactions in Mexico was conducted on credit.

The report described this trend as “strongly driven by financial reasons.” It stated that offering credit to buyers was seen by many businesses as a way to grow sales and attract new customers.

At the same time, buyers were likely to request credit terms as a way to reduce reliance on bank loans to pay their bills while trying to maximize their cash flow in the short term.

The Atradius survey found that extending credit to customers was risky, with 43% of invoices paid on time while half were late and 7% were written off as bad debt. 62% of the survey's respondents cited financial weakness as a reason buyers were unable to meet their obligations. But 57% attributed payment default to inefficiency in payment processes.

## Against this economic backdrop, businesses need to improve their processes to help better manage their cash flow and optimize their working capital.

While maximizing available funds is crucial, few of Mexico's companies have automated their procurement processes. Much of the business of handling invoicing and payments between buyers and sellers remains manual.

Manual processes provide an incomplete view into the company's spending. This makes it more difficult for Treasury teams to forecast the company's cash needs accurately and plan effectively.

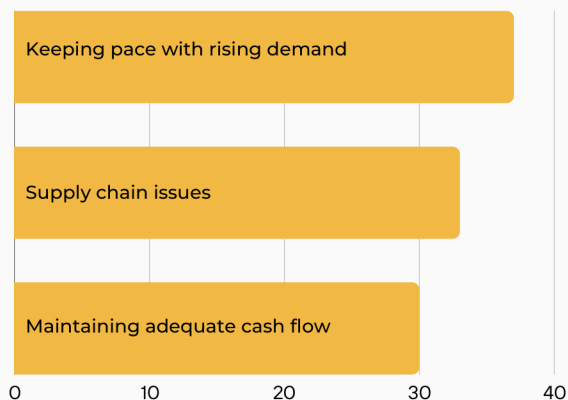
Macias adds: “We see that corporations with manual processes suffer. Of course, the effect is different for each company. But generally speaking, inefficiency impacts working capital across the board.”

Manual reconciliation is complicated, with payments often including several invoices. This raises costs for both parties. It's also less secure than automated processes.

The potential for human error – resulting in paying bills late or having to reprocess invoices – also can affect relationships between buyers and suppliers.

The need for **continuous education** on the benefits of commercial cards regarding cash flow and working capital is critical for Mexican businesses.

Mexico's top 5 greatest challenges to business profitability



Source: Atradius Payment Practices Barometer - Results for Mexico July 2022

Commercial cards provide buyers with extended payment terms and opportunities to delay cash outflows while securing immediate access to goods and services. By strategically timing payments within billing cycles, buyers can optimize the alignment of cash outflows with inflows.

The automation of expense management processes, coupled with detailed reporting and analytics, streamlines financial workflows and enhances visibility into spending patterns, aiding in informed decision-making for budgeting and resource allocation.

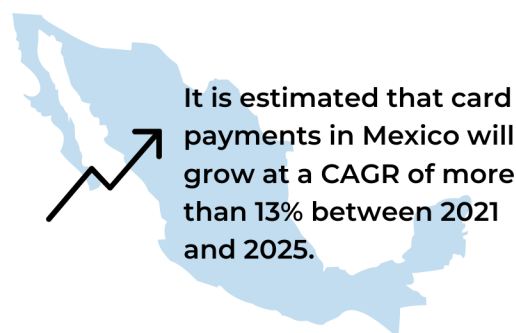
Beyond financial benefits, the use of commercial cards fosters positive supplier relationships through timely payments, potentially leading to more favorable terms and discounts. In essence, commercial cards serve as a multifaceted tool for buyers, not only optimizing working capital but also promoting efficiency and collaboration within the supply chain.

### Usage of commercial cards in Mexico is shifting.

Cards are often provided to employees for travel and entertainment. Companies also frequently use a central travel account to buy airline tickets and book hotels for their employees. According to the Mercator Advisory Group report, these accounts drove 18% annual growth in corporate card spending before the pandemic.

While travel spending was dramatically affected by the pandemic, a separate Mercator report predicted that spending will recover by 2024 as more normal patterns return.

Purchasing cards, also known as P-cards, are also quite common in Mexico but with only a select few issuers. These are typically used for petty cash, corporate procurement, or to centralize toll payments for employees.



Growth in the use of cards generally is likely to contribute to that acceleration. While cash dominates consumer payments in Mexico, the card market there is growing as well. A Global Data report estimated that card payments in Mexico will grow at a CAGR of more than 13% between 2021 and 2025.

New card capabilities will contribute to this “adoption” in the market. For example, a few issuers are starting to issue Single Use Transaction (VCN) payments, however acceptance will continue to be the challenge.

Consumer behavior changes are subsequently rippling into the business space. They’re bringing a better experience with them. Companies in Mexico are beginning to broaden their use of commercial cards.

Service sectors like taxes and utilities – have been among the first to embrace this shift. Office supply stores are also early adopters. In these scenarios, the card payments are typically being taken in person at a physical store location or through a supplier portal.

“Suppliers are starting to accept card payments – not only from consumer segments, but from businesses as well,” adds Macias.

“They’re starting to realize that businesses are willing to have the same experience. As they make this shift, they’re finding that it has an impact on their ability to manage that critical piece – working capital.”

## CONCLUSION

As businesses continue to recognize the need for efficiency and visibility to help their businesses grow, this is likely to drive further evaluation of purchasing processes in Mexico. This means that digitization here is likely to accelerate.

The broad shift in consumer behavior is likely to have an impact on business processes in Mexico as well. As more people have experience with digital payments personally, they will likely be willing to experiment with new processes in their businesses.

As economic conditions and trends vary from region to region, it’s important to work with a partner who understands the global landscape.

## ABOUT BOOST PAYMENT SOLUTIONS

Boost Payment Solutions is the global leader in B2B payments with a technology platform that seamlessly serves the needs of today's commercial trading partners. Our proprietary technology solutions bridge the needs of buyers and suppliers around the world, eliminating friction and delivering process efficiency, payment security, data insights and revenue optimization.

Boost was founded in 2009 and operates in 45 countries and territories around the world.



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