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The AP Approach
Behind **Ethically Sourced Chocolate**

JULY 2020

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REINVENTING B2B PAYMENTS

REPORT



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What's Inside

A look at how the COVID-19 pandemic and its related economic downturn are prompting businesses to upgrade their AP and AR systems and rely more on digital B2B payment solutions

Feature Story

An interview with Shawn Askinosie, CEO and founder of SMB chocolatier Askinosie Chocolate, on the AP strategies that can better support ethical trade and how the pandemic has affected check-based B2B payments

News & Trends

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About

Information on PYMNTS.com and American Express

Acknowledgment

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WHAT'S INSIDE

The COVID-19 pandemic and the resulting economic downturn have exacerbated existing business-to-business (B2B) payment pains and introduced new ones. Vendors that previously endured late corporate buyer payments now risk going out of business if funds are delayed too long. Stalled payments could be particularly damaging for small to mid-sized businesses (SMBs), especially as traditional emergency cash flow options — like loans — are becoming harder than ever to secure.

Many buyers are meanwhile seeking to significantly extend payment timelines to free up cash and cope with sales losses and interrupted operations, pushing some companies to renegotiate contracts. These shifts are encouraging others to replace paper-based, legacy payment options with transaction methods like credit cards, which are more cost-effective for buyers' accounts payable (AP) teams to send and quicker for suppliers' accounts receivable (AR) professionals to receive.

These are just a few of the pandemic-driven hurdles B2B buyers and suppliers face. They must also confront a growing number of payment fraud attempts and difficulties in maintaining manual AP processes while enabling social distancing and other new challenges.

AROUND THE B2B PAYMENTS SPACE

Numerous businesses have clung to manual, paper-based AP processes, but enabling staff to work from home to reduce their risks of catching COVID-19 has forced companies to rethink such legacy systems. Updating AP practices is not always an easy process, however, and the prospect of paying for and implementing complete AP overhauls could overwhelm some business owners. Solution providers can better assist businesses by offering tools that integrate with existing systems rather than require them to completely abandon their current setups, Julie Negrete-Anderson, chief operating officer and founder of AP automation tools provider OnPay Solutions, explained in a recent interview.

American Express recently <u>launched</u> one such ready-to-fold-in AP solution, which is designed to work with the accounting systems that businesses already have in place. The tool enables AP staff to avoid visiting their offices in person and instead remotely issue payments via automated clearing house (ACH) checks and virtual cards. Offerings like these can fill significant gaps, with an American Express survey finding that 44 percent of SMBs surveyed in June 2020 still made most of their payments manually before the pandemic.

Suppliers are also upgrading their AR operations as they work to enable faster and more fluid corporate client payments. Vendors' heightened needs for new cash flows during the current health crisis are prompting them to smooth frictions that prevent swift payments,

and encouraging digital transactions could be key to these efforts. AR automation and order-to-cash (O2C) solutions provider Billtrust recently announced an offering that allows vendors to email digital invoices, for example, enabling buyers to pay immediately via smart links included in the messages. Streamlining digital payments could push buyers to send funds faster rather than using paper checks, which take days to reach vendors in the mail.

For more on these stories and other B2B payment headlines, read the report's News and Trends section (p. 14).

ASKINOSIE CHOCOLATE ON SMOOTHING PANDEMIC-DRIVEN AP DISRUPTIONS

SMBs in the food sector must be attuned to their small growers' payments needs, as the latter rarely have the financial reserves to endure transaction delays even in times of economic stability. Chocolatiers focused on ethical global trade are well aware of the importance of supporting vendors and are seeking to ensure that they can continue working despite pandemic-related disruptions.

These are not the only AP concerns facing small confectioners, however, as remote work needs are prompting many SMBs to reconsider their manual AP processes. Shawn Askinosie, CEO and founder of <u>Askinosie Chocolate</u>, a confectioner that trades directly with small

cocoa farmers in developing countries and also buys from U.S. vendors, discussed these challenges. In this month's Feature Story (p. 9), Askinosie explained the AP strategies that allow the company to make smooth payments to global suppliers — even those in remote regions — and why he sees potential in moving away from paper checks and toward app-based payments.

DEEP DIVE: HOW VIRTUAL CARDS EASE B2B PAYMENT PAINS DURING THE PANDEMIC

All companies facing economic uncertainty want as much money on hand as possible to respond to changing needs and pay their bills. This can create conflict between B2B buyers and suppliers, however, as the former often seek payment timeline extensions while the latter desire prompt or even early payments. This month's Deep Dive (p. 22) examines how virtual cards can solve both parties' issues, enabling vendors to receive immediate compensation and buyers to extend bills' due dates. It also examines the rise in online fraud attempts and how virtual cards can help AP departments better safeguard transactions.

| Executive | INSIGHTS

Economic strain due to the COVID-19 pandemic has placed pressure on businesses to conserve their working capital, while it has also prompted vendors to seek faster payments. How are you seeing B2B spending shift in response and how much do you expect this to persist after economic conditions normalize?

"Today, many business leaders are seeking solutions to their payment process challenges, particularly in light of the disruptions caused by the COVID-19 pandemic. American Express has seen B2B card payments accelerating through virtual card payments and a critical need from our customers to digitize and automate payment processes. Leveraging virtual card payments with an AP automation solution provides our customers with both needed working capital and process efficiency. Interestingly, according to our recent American Express One AP Survey, 84 percent believe it would be helpful to switch from paper to automated digital payments, citing the benefits of efficiency and time saving (68 percent), improved payment accuracy (43 percent) and improved cash flow management (34 percent).

Over the past several years, we have been on a journey to digitize payment processes and become an essential part of our customers' businesses through a number of 'beyond the card' offerings and B2B partnerships. Through [such] innovative offerings and B2B partnerships, we are equipping businesses with the flexibility to choose multiple payment methods, including virtual card payments, checks and ACH."

TRINA DUTTA

vice president and general manager of B2B payments automation and global commercial services at <u>American Express</u>

"Supplier payment acceptance was already becoming more automated and digital prior to the pandemic, compared to the more traditional approaches of ACH and invoicing. However, COVID-19 has been an accelerator in this space, with suppliers now shifting their operations to get paid faster, including the acceptance of credit cards for B2B payments.

At American Express, we have also been working on new offerings for our merchants that help deliver faster payments, and AR automation is one of the key areas of focus. We understand that our merchants have different types of AR based on size, industry and other nuances, but the need to automate fully or partially is there and accelerating. That's why we've partnered with automated AR service providers like Invoiced and HighRadius. These providers can help merchants automate receivables by fitting into their existing AR systems, with the option to fully transition over time. This phased approach is important to the success of automating, as companies are already adjusting to their workforce working from home and [are] increasingly looking to take their operations online."

GUNTHER BRIGHT

executive vice president of U.S. merchant services at <u>American Express</u>

\$5T

Projected value of virtual card spending in 2025



FIVE FAST FACTS

80.8%

Share of AP departments paying suppliers with paper checks in 2019



200%

Growth in business email compromise attempts between April 2020 and May 2020



25%

Share of fashion brands that delayed more than half their supplier payments in April 2020



21%

Projected CAGR of virtual card spending from 2017 to 2022



FEATURE STORY



The AP Approach Behind **Ethically Sourced Chocolate**

Ensuring smooth transactions and managing payment flows to suppliers worldwide can be challenging for SMBs — even without the pandemic dialing up the difficulties. The health crisis has caused financial strains all around, making it even more important for SMBs to promptly pay their vendors, especially those that may be struggling. SMBs' shifts toward enabling employees to work remotely have also made it more difficult for these businesses to maintain clear oversight into their payments.

Missouri-based Askinosie Chocolate, which has sold ethically sourced confections since 2007, has been tackling such challenges. The SMB trades directly and shares profits with cocoa bean farmers in four countries, importing the beans itself and making chocolate bars from scratch to sell to restaurants, bakeries, food stores and direct to consumers online. The 17-person company has to ensure that even farmers in very remote regions of the world — including the Amazon rainforest — can

conveniently receive payments, and that it can handle transactions smoothly despite current market disruptions.

The COVID-19 pandemic has brought about new frictions, and SMBs have responded by examining their payment processes. The company's CEO and founder, Shawn Askinosie, recently spoke with PYMNTS about the pandemic's effects on transactions in the chocolate world and which AP tools could become more important for SMBs.

BUYING FROM DEVELOPING ECONOMIES

The pandemic has caused the commodity price for cocoa beans to fall and fluctuate wildly over the past three months, Askinosie said, raising serious concerns for many farmers whose compensation is based off this. Not knowing when prices may stabilize adds an extra layer of frustration.

"For cocoa farmers around the world, this is really bad," he said.

Growers working for Askinosie Chocolate have been sheltered from this disruption, however, because the company already makes a point of paying significantly above market price and provides much of the money in advance of harvest, Askinosie explained.

"In 68 percent of the cases, we have provided payments to the farmers well in advance of receiving cocoa beans, which

essentially means we're giving them zero percent interest loans to finance the harvesting and post-harvest process," he said.

Transacting with farmers in developing countries and regions like Amazonia, Ecuador, the Philippines and Tanzania can be difficult even during the best of times. Askinosie had to visit many of these farmers in person to help them obtain bank accounts, in fact, so they could receive international payments, which the chocolatier delivers via wires.

Askinosie said the company also went through some painful trial-and-error phases in determining how best to support farmers and other ingredient suppliers. He initially tried paying farmers entirely in advance but had to change that policy after two unfortunate instances, including one in which suppliers in Venezuela vanished with nearly \$33,000 and no product delivered. The chocolatier now reserves a portion of the payment until cocoa beans reach their local shipping ports. It also has had to use credit cards and PayPal for other international ingredient purchases, where the ability to receive protections like chargebacks has proven to be an important safeguard.

THE PAPER VERSUS DIGITAL DEBATE

The SMB's U.S. supply chains and sales still involve many paper-based transactions, with some of the confectioner's vendors expecting physical checks, Askinosie said. Many



merchant clients also want to receive their goods and the associated invoices at the same time, which then necessitates that paper invoices be included inside the shipping packaging.

Even the pandemic has not totally shaken vendors free from paper, and Askinosie said the continued reliance on physical checks may be due to both inertia and the fact that the ability to make mobile deposits of paper checks during stay-at-home orders reduces what otherwise could become untenable frictions. He still predicted that easy-to-use B2B payment apps could supplant paper-based processes,

and that the pandemic-driven shift to remote operations could spur this transition.

"The methods that we're using — especially now that we've been working from home for a long time — are antiquated. They're ripe for renovation," Askinosie said. "I have special concerns about financial transactions in a work-fromhome environment — I don't feel as though I have as much connection to it as I did when it was 25 feet from me."

Business owners are more removed from their companies' AP processes when staff are working in different locations, after all. Digital tools such as a B2B version of a peer-to-peer payment app like Venmo could streamline processes and provide them with better oversight, Askinosie suggested.

"I'm finding that signing physical checks and putting a stamp on something — that's like the Pony Express," he said. "What I would be in need of is a method by which we could easily do a transfer that really small businesses were used to accepting."

Getting SMB buyers on board with app-based payments systems would first depend on ensuring the solution has robust controls, such as the capability to set select authorization levels for different users and to create easy-to-reconstruct audit trails, he said. This would reassure businesses that there are defenses against embezzlement - a problem Askinosie said he has not encountered but of which he must still be cautious.

"When you talk about systems to make things easier, you also have to have a proportional set of tools to make controls also as easy," Askinosie said.

He predicted as well that blockchain technologies could play a key role in helping businesses obtain this robust financial tracking.

Askinosie Chocolate is not alone in taking a fresh look at its payment methods. Seventeen percent of surveyed businesses in a recent study said the inability to get clear oversight into their outstanding payment obligations was a main source of friction associated with their manual AP processes, for example. Such pain points could be solved by incorporating digital solutions that simultaneously speed payment flows and offer firms greater insights into the data that accompanies them.

Providing convenient payments to rural suppliers in developing economies as well as U.S.-based vendors during the pandemic has been a demanding task, and keeping track of these payment flows has only added to the challenge. Paying close attention to AP processes and examining options to digitize payments could help SMBs as they work to make it through the crisis while maintaining strong supplier relationships and obtaining much-desired transaction visibility.

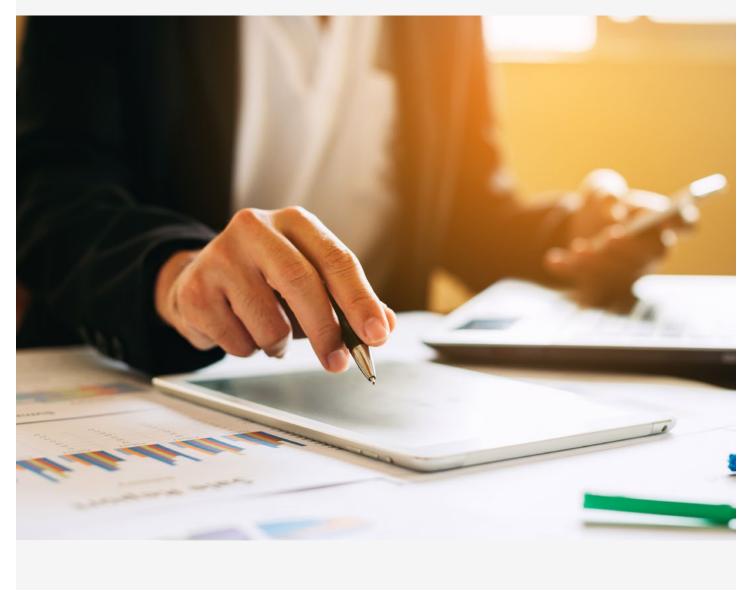
NEWS& TRENDS

Days payable outstanding

LARGE BUYERS' SLOW PAYMENTS **COULD FORCE SMBs TO GET CREATIVE** TO SAFEGUARD CASH FLOWS

Small suppliers often receive late payments from their large corporate clients. Many SMBs depend on these sales and are thus reluctant to risk aggravating customers by sticking to

agreed-upon deadlines, while others find that large clients spend enough to make it worth the hassle. These suppliers may be forced to rethink their cost-benefit calculations during the current economic downturn, however, as many are running out of funds and require payments as soon as possible to stay afloat. Large buyers facing similar cash crunches are simultaneously trying to delay payments to



keep more cash on hand, which could exacerbate the problem.

Small vendors have traditionally sought loans to deal with these cash flow gaps, but such financing may now be more difficult for SMBs to secure. Those that have accepted COVID-19related government assistance could find that the debt it creates acts against them when they apply for loans, David Landsberg, CEO and co-founder of early-payment discounts tool provider Peasy, said in a recent PYMNTS interview. Offering early-payment discounts can backfire, too, because some corporate buyers agree to these deals to reduce their payments but still do not pay ahead of schedule. Landsberg suggested that SMBs could instead offer buyers rebates after they make early payments, which would safeguard against such behaviors.

BUYERS REVISE PAYMENT TIMELINE STRATEGIES DURING PANDEMIC

Not all buyers push their payment deadlines, however, and the pandemic has made many eager to nab early-payment discounts and improve their budgets. Recent <u>findings</u> suggest that B2B buyers are making major shifts in how quickly they compensate vendors. Companies that can afford to significantly accelerate their payment timelines are doing so to secure discounts, and buyers with tighter

budgets are taking far longer to pay off invoices they receive.

A separate <u>report</u> noted that cash flow-minded businesses are focusing their cash management strategies on improving invoice processing rather than tapping financing tools. Companies also do not appear to be buying less despite the economic downturn, with the report stating that supplier invoice values and quantities from March to May of this year are similar to those made during the same period in 2019.

B2B DEBT COLLECTION COULD RISE DURING THE PANDEMIC

Some vendors that struggle to secure overdue payments turn to debt collectors for help. These companies seek payments from buyers, then typically keep 20 percent to 40 percent of any amount successfully collected and pass along the remainder to suppliers. Such services could become more popular in the B2B space, and debt collection platform NexaCollect recently launched a B2B-focused online portal in anticipation.

NexaCollect said that SMBs represent a large share of the entities it serves, and its new portal aims to help AR departments find reliable B2B debt collection agencies and lawyers with which to work, supplementing NexaCollect's preexisting offering of business-to-consumer debt collection resources. Many states have

imposed limits on debt collection services and laws that restrict payment recovery during the pandemic, however. Some businesses have also reduced their AR efforts to focus on other needs during the crisis, with New York reportedly seeing almost no debt collection attempts during a span of several weeks, for example.

eINVOICES WITH SMART PAYMENT LINKS AIM TO ACCELERATE PAYMENT **TURNAROUNDS**

Reluctant-to-pay buyers are not the only cause of slow vendor compensation - legacy invoicing and payment methods can also create speed bumps. Some suppliers send paper invoices that buyers can easily misplace among other documents, and vendors must also wait days for funds sent via paper checks to arrive in the mail. These friction-filled processes can make it difficult to quickly determine payments' statuses.

AR automation and O2C solution provider Billtrust recently unveiled a tool to help vendors adopt digital invoicing methods and encourage electronic payments. The solution enables suppliers to email digital invoices that include "smart payment links," which buyers can click to pay immediately or schedule payments. Billtrust said remittance data would be sent to suppliers along with payments to support easy reconciliation.

Card spending

BUYERS AND SUPPLIERS EYE CARD PAYMENTS TO EASE CASH FLOW **STRAINS**

Some buyers are turning to commercial cards to promptly pay their providers and keep funds in their own accounts until the bills become due, which could bring about major shifts for both buyers and suppliers. Many vendors that were previously reluctant to accept card fees are eagerly embracing the method to more quickly receive payments. Buyers that traditionally reserved the payment tool for one-off equipment purchases are meanwhile utilizing it for other expenses, such as facility management fees and utility bills, Dean M. Leavitt, founder and CEO of B2B card payments and processing solutions provider Boost Payment Solutions, recently told PYMNTS. The expanding usage of commercial cards is just one way in which the current economic situation is prompting companies to reenvision their B2B payment approaches and help all parties ease their cash flow strains.

THE PANDEMIC INSPIRES 35 PERCENT OF SMBs TO RETHINK THEIR PAYMENTS PROCESSING STRATEGIES

Not all companies were set up for issuing B2B card payments before the pandemic, however. Forty-four percent of SMBs told American Express in a June 2020 survey that most of their payments were not handled digitally prior



to the public health crisis, and 79 percent said they had been delivering at least some payments via paper checks during that time. The pandemic has prompted buyers to take a more critical look at such operations, with 35 percent of respondents saying they were reconsidering their payment processing approaches due to current circumstances.

American Express accompanied its report release with the announcement of a new payments processing tool. That offering is designed to be incorporated into businesses' existing operations without requiring them to change their accounting systems, and it includes features for issuing payments via ACH, check and virtual card.

BMO HARRIS BANK ADOPTS SOLUTION FOR STRAIGHT-THROUGH VIRTUAL **CARD PROCESSING**

Virtual cards are also growing more popular, and Chicago-based BMO Harris Bank is helping its business clients more easily and conveniently accept them. The bank is collaborating with Boost Payment Solutions to offer the latter's straight-through card payment processing platform to BMO Harris Bank's clients. Boost said that its solution automatically processes virtual card payments and reportedly facilitates quicker payment acceptance and reconciliation. Steve Pederson, BMO Harris Bank's head of North American corporate card products, stated that this creates a more efficient payment acceptance process that can help businesses improve their cash flows.

VIRTUAL CARD PAYMENTS ARE EXPECTED TO VALUE \$5 TRILLION BY 2025

Companies have typically used virtual cards to help employees securely and easily make business travel-related purchases, but such spending has declined during the pandemic. One recent report noted that virtual card use remains strong, however, as businesses are now leveraging the payment method for other expenses. The value of total business spending made with virtual cards is expected to dip 4 percent in 2020 due to the drop-off in corporate travel, but companies are projected to make 11 percent more virtual card transactions and hit \$1.6 trillion in virtual card spending this year. The report anticipated that card use would remain popular through 2025 and that virtual cards would account for more than \$5 trillion in spending that year, with 80 percent of such transactions being attributed to B2B use cases.

B2B travel

VIRTUAL CARDS AND ROBOTIC PROCESS AUTOMATION CAN EASE TRAVEL AGENCIES' PAYMENTS

Business trips are sometimes necessary even during the pandemic, and travel agencies are thus looking to more efficiently and securely pay for airlines, hotels and other services to secure bookings for their customers. B2B payments solutions and travel technology provider Amadeus recently stated that travel agencies

could reduce fraud risks during the economic crisis by ditching legacy payment methods and turning to virtual cards. The company did not elaborate on how this could bolster security, but one reason could be that virtual cards are generally designed to be used once. New card details are generated for each transaction, meaning fraudsters would not be able to use stolen information to fuel purchasing sprees.

Amadeus said complicated or slow integration processes may prevent travel agencies from adopting improved payment tools, however. The company recently partnered with Australian B2B payments processing firm Troovo to help clients avoid such frictions and quickly and easily begin using virtual cards. Troovo provides a robotic process automation engine that automatically transmits transaction-related data between travel agencies' booking platforms and airlines' passenger service systems or hotels' property management solutions. The service can also save travel agencies time because they do not need to integrate their solutions with airlines' or hotels' systems.

DIGITAL WALLETS AIM TO EASE TRAVEL PURCHASING

The travel sector is struggling as the pandemic forces flight cancellations and delays. Many consumers are reluctant to book trips for fear of contagion, and public health measures may require travelers to cancel existing



plans. Companies are exploring all options to mitigate these issues, including adopting more secure and convenient ways to make and accept payments.

B2B travel marketplace TravelgateX and travel sector-focused digital wallet systems provider PayParc are partnering on a solution that enables the former's customers to use the latter's wallet to pay providers. PayParc's network automatically transmits payments when consumers make reservations for services like flights or hotel stays, sparing buyers from manually entering payment details and sellers from manually collecting or processing them. The system also provides visibility by tracking which payments and bookings correspond.

Updating AP processes

WORRIES ABOUT PRICEY AND EXTENSIVE OVERHAULS DETER SOME FIRMS FROM AP MODERNIZATION

Businesses have long known about the benefits of digitizing AP processes. The pandemic is making it harder for firms to manually manage their operations, too, as nonessential employees must work from home to avoid potentially exposing themselves to COVID-19. Not all businesses are abandoning their old-school AP methods for flexible digital options, however. Many assume that going digital requires overhauling their AP methods and shelling out large sums for software, Julie Negrete-Anderson, chief operating officer and founder of AP automation tools provider OnPay Solutions, recently explained to PYMNTS.

She said businesses may not realize that updating does not have to be an all-or-nothing affair and that integrating even a few AP tools into their existing systems can improve their operations. Firms can also fail to realize the full cost of manual processes as cutting paper checks and appointing staff to handle physical documents can eat away at funds. Negrete-Anderson noted that legacy methods can prevent firms from quickly tracking payments' statuses and raise concerns about whether they can meet their payment obligations without sending workers into their offices.

SOME FIRMS ARE BLENDING DIGITAL AP TOOLS INTO SMBs' MANUAL **PROCESSES**

AP solution providers must understand that small companies' needs, resources and systems differ from those of larger firms, meaning they require offerings tailored to their operations, Anna Leo, vice president of cloud spend management solutions provider Medius Ascendo North America, said during a recent PYMNTS interview. Many large firms possess enterprise resource planning systems and can afford to issue and manage digital purchase orders, and they therefore seek AP offerings that can integrate with these tools. Smaller players frequently rely on Excel spreadsheets and paper-based purchase orders, however, and they are unlikely to have the funds to replace all their manual processes. This

means they need AP solutions that are compatible with their existing workflows. Modern AP tools can still help SMBs quickly compare manually typed details to check for discrepancies between two documents, for example, which could help them catch errors that would have resulted in overpayments.

TAPPING AP PAYMENT HUB CAN HELP **BUSINESSES REDUCE INTEGRATION SECURITY RISKS**

Going digital does not solve all B2B AP problems, however. Companies that adopt AP software and tools could struggle if they are forced to manage numerous solution providers, said Patricia Montesi, CEO of B2B payments company Qolo. She recently told PYMNTS that businesses may find juggling many different AP offerings to be inconvenient as well as risky - partnering with multiple solution providers gives fraudsters more potential openings through which to access companies' data. Montesi said businesses might prefer to update their AP processes by forging single, secure application programming interface-based integrations with holistic platforms that offer various B2B payment capabilities, rather than relying on many different players.

DEEP DIVE

How Virtual Cards Can Ease Firms' Cash Flow, Fraud Pains During The Pandemic

The pandemic and the associated economic downturn have forced businesses to rethink their B2B payments approaches as they confront new and existing financial strains. Old-school paper checks are an established part of the space, with research finding that 80.8 percent of AP departments used the method to pay suppliers in 2019. Paper checks can be expensive for buyers to issue and slow for suppliers to receive, however, and such pains are beginning to weigh more heavily on companies that are struggling during the crisis. Many vendors wish to be paid on schedule or ahead of time to make ends meet and cope with losses, and check payments can be frustratingly sluggish. Buyers are meanwhile hoping to reduce their own costs, and the challenges both sides face could shift them further away from check payments. It costs AP departments an average of 82 cents to create a check and only 13 cents to generate digital payment, for example.

Companies are also confronting a rising tide of fraud, including a growing number of business email compromise (BEC) schemes. Bad actors launching these attacks can email buyers and pretend to be vendors, for example, requesting that suppliers' bank account details

be changed to those of the criminals perpetrating the scams. Invoice and payment fraud attempts via BEC scams rose 200 percent from April to May, revealing that fraudsters may have believed pandemic-driven disruptions would give them cover by making buyers less wary of payment practice adjustments to support shifts to remote operations. The growing fraud threat could drive companies to seek more secure B2B payment methods.

Buyers and suppliers facing new cash flow crunches and security risks during the economic downturn may find that updating payment approaches and abandoning paper checks can ease some strains. The following Deep Dive examines how shifting to virtual card payments helps businesses alleviate some frictions for buyers and suppliers alike.

BALANCING CONFLICTING CASH FLOW NEEDS

Both suppliers and buyers are struggling to safeguard their finances as the pandemic disrupts their operations. Cash-strapped vendors are finding it difficult to endure late payments, while many buyers are hoping to delay payments to retain more cash. Maintaining more working capital in their bank accounts enables

the latter to earn greater interest and have more resources available to respond to changing circumstances.

The clash between these competing interests has been especially evident in the apparel industry. Consumer demand sharply declined during the crisis, which caused revenue shortages for most retailers. Many fashion brands are trying to shift some of their financial burdens onto suppliers by canceling orders, delaying vendor payments and reducing compensation.

Just one-fifth of fashion industry sourcing executives in an April 2020 <u>survey</u> said they were abiding by existing payment agreements for at least 75 percent of their orders, while 18 percent were not keeping up with any of their agreements and 25 percent were delaying

supplier payments for a majority of their purchases. Some textile retailers have sought to ease their budget strains by <u>ballooning</u> payment terms from the usual 60 days to as long as 150 days, while others have aimed to cancel and evade payment entirely. Apparel brands are aware that this deepens their suppliers' financial hardships, with 45 percent of sourcing executives <u>predicting</u> in April that the majority of their suppliers would be "in financial distress" by October.

Some companies are abandoning paper checks and turning to virtual card payments to meet both buyers' and suppliers' payment timeline needs. Such transactions can <u>settle</u> in vendors' accounts instantly, and they also enable buyers to promptly compensate suppliers while retaining funds until credit card bills are due. This effectively extends buyers'



payment timelines without burdening suppliers. Cardholders are typically required to pay off portions of their credit card balances each month or incur interest. Using these cards then lets them hold on to their funds for an additional month beyond their payments' due dates to suppliers — or for longer should they not wish to pay off their card bills in full.

The method can grant buyers greater flexibility and control while potentially earning them savings as they can accrue more interest by keeping funds in their accounts for longer and netting card rewards that add up. Cards offering 0.5 percent cash back can earn companies \$5,000 for every \$1 million they spend, for example. Corporate treasury personnel have been aware of virtual cards' benefits for some time, but the pandemic has made these tools more desirable, with 22.9 percent of AP professionals saying in 2019 that they would like to adopt ePayables — virtual cards that are designated for use with specific vendors.

Buyers have traditionally avoided transitioning to virtual card payments because some vendors have been reluctant to pay what can be a 2.5 percent per transaction processing fee. The pandemic may be pushing suppliers to rethink their reluctance, however, as the method can rapidly accelerate payment timelines.

REDUCING FRAUD

Buyers that are renegotiating payments to conserve their working capital cannot afford to lose funds to fraud. AP departments are frequent targets, too, with 90 percent of companies stating that their AP divisions see the greatest share of fraud issues. Such attacks are on the rise, with online fraud expected to cause \$25.6 billion in losses this year.

Virtual cards can be a <u>safer</u> payment method, however, because buyers can limit cards' transaction values to prevent potential abuse. Companies also typically generate single-use cards for each purchase, which ensures that fraudsters who manage to steal card details cannot reuse them. This setup also means that vendors are not storing clients' card data on file, thus preventing buyers' details from being compromised, even if vendors have been hacked.

This payment tool has been gaining greater attention, with <u>projections</u> made in 2018 estimating that virtual card spending would grow at a 21 percent compound annual growth rate (CAGR) between 2017 and 2022. This adoption could accelerate further as pandemic-driven financial realities prompt more companies to seek secure payment options that support both parties' cash flow needs.

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