Business Payments Digitization:

A Path To A Better Balance Sheet

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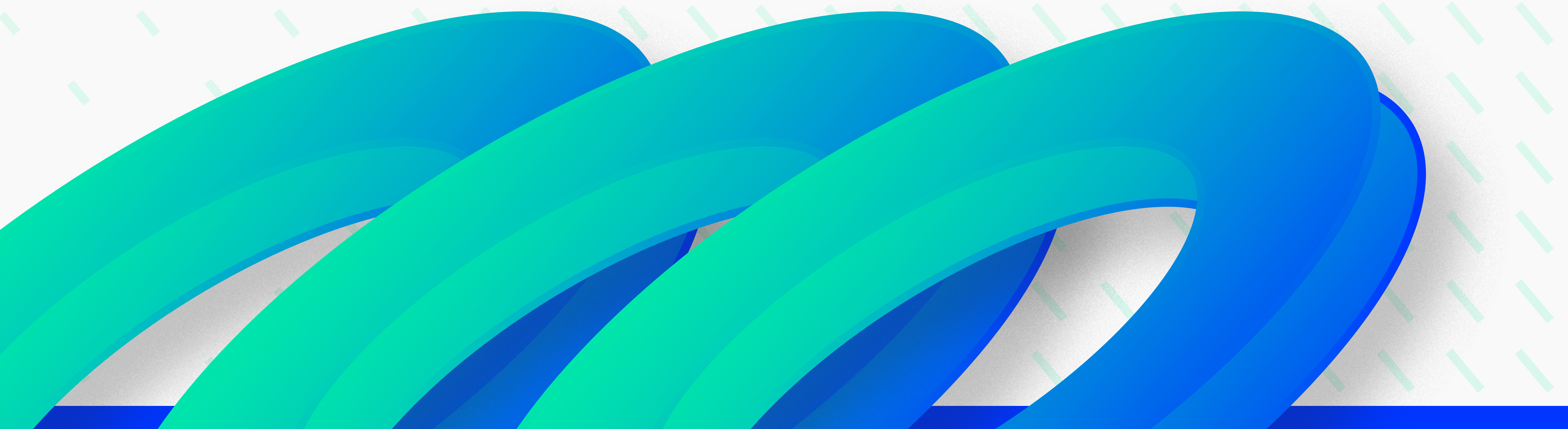
Business Payments Digitization:
A Path To A Better Balance Sheet,
a PYMNTS and Corcentric collaboration, explores how CFOs leverage payments digitization as part of their strategies for improving and maintaining overall balance sheet health. We surveyed CFOs from organizations generating between $400 million and $2 billion in annual revenue about whether their firms have accelerated their usage of digital payments since March 2020 and how that digitization has impacted their broader payments operations.



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Business Payments Digitization:

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Introduction

The economy is slowly recovering from the pandemic slowdown, but corporate balance sheets are still reeling. United States businesses accumulated record debt in the months following March 2020, with many issuing bonds to shore up their balance sheets and hedge against revenue loss as consumer spending fell. By March 2021, nonfinancial companies in the U.S. had amassed $11.2 trillion in debt — roughly half the size of the U.S. economy. Companies of all sizes and sectors, from Boeing to Target to Sysco Corp. and beyond, are now refinancing their debt and beginning to pay off the bonds they issued during the past 18 months as part of a broader initiative to improve the health of their balance sheets.

Chief financial officers (CFOs) tasked with helping their organizations weather this storm are doing more than restructuring and paying back debt. Many have also used the financial challenges arising amid the pandemic as a springboard to implement digital innovations that will enable long-term improvements to their organizations' payments operations.

This is one of the key findings PYMNTS uncovered in a survey of 400 CFOs conducted between Aug. 16 and Sept. 15. Seventy-one percent of CFOs in our study said they have accelerated their payments digitization efforts during the 18 months since March 2020, with 38 percent doing so with the express intention of improving their balance sheets. It is clear that payment digitization is playing a key role in CFOs' broader strategies for improving their organizations' financial health.

Business Payments Digitization: A Path To A Better Balance Sheet, a PYMNTS and Corcentric collaboration, explores how CFOs leverage payments digitization as part of their strategies for improving and maintaining overall balance sheet health. We surveyed CFOs from organizations generating between $400 million and $2 billion in annual revenue about whether their firms have accelerated usage of digital payments since March 2020 and the ways in which that digitization has impacted broader payments operations. The CFOs in our survey hailed from organizations in five industries: retail and trade, finance and insurance, industrial or manufacturing, healthcare or medical and travel and transportation.

1 SEVENTY-ONE PERCENT OF CFOs HAVE INCREASED THEIR USE OF DIGITAL PAYMENTS SINCE THE PANDEMIC'S ONSET.

Nearly all firms are making and receiving payments via cash or checks less often and receiving digital payments more often than they were before March 2020.

Credit card-enabled digital payments, such as those made via supplier portal or digital wallet, have seen the greatest uptick in usage of any payment type since the pandemic began. Eighty-five percent of CFOs say their businesses are making more card-enabled digital payments like these now than they were in March 2020. Digital payments made via direct deposit or PayPal are close seconds, with 71 percent and 62 percent of CFOs saying that their usage of these two payment methods, respectively, has increased since March 2020.

2 FIFTY-NINE PERCENT OF CFOs SAY THAT PAYMENTS DIGITIZATION IS KEY TO MAINTAINING A HEALTHY BALANCE SHEET.

Thirty-eight percent of CFOs who have fast-tracked payments digitization have done so specifically to improve their balance sheets.

CFOs are investing in payments digitization in large part because they believe doing so can improve the health of their balance sheets. Most CFOs believe that payments digitization is integral to a healthy balance sheet, and 38 percent say they accelerated digitization with their balance sheets in mind. CFOs invest in payments digitization for other reasons as well. Those who have accelerated their payment digitization efforts report doing so for an average of 4.5 reasons, and say that boosting payments efficiency and attracting and retaining customers are also key digitization drivers.

3 EIGHTY-FOUR PERCENT OF CFOs SAY PAYMENTS DIGITIZATION HAS IMPROVED WORKING CAPITAL.

Enhanced efficiency and reduced costs are also among the chief benefits CFOs have seen since accelerating payments digitization.

Enhanced working capital improvement is the second-most common benefit firms have seen from digitization, following increased payments efficiency. Ninety-one percent of CFOs say their payments operations are more efficient after accelerating payments digitization. This improvement in payments efficiency and working capital can be seen among all firms regardless of size.

4 FINANCE, INSURANCE AND HEALTHCARE FIRMS ARE THE MOST FOCUSED ON IMPROVING THEIR BALANCE SHEETS.

They also have seen the most improvements.

Seventy-one percent of finance or insurance firms and 64 percent of healthcare firms consider payments digitization "very" or "extremely" important to maintaining healthy balance sheets. Forty-eight percent of CFOs from both types of firms accelerated payments digitization for just this reason, making them the most likely from any industry to have done so. Finance, insurance and healthcare firms have seen the greatest overall improvement in their working capital and have reported more improvements in their data security since accelerating digitization, according to their CFOs.

Crossing The Digital Chasm

U.S. businesses are using digital channels to make and receive more payments than ever, including using more supplier portals, app-based payments and other online methods to send and receive funds. Most of these digital payments are being made with credit cards: **88 percent of all CFOs say their organizations use credit card payments, and 85 percent of these firms are making and receiving more credit card-enabled digital payments than they were before they fast-tracked their digitization efforts.**

Businesses are also using more real-time payments and payments made via virtual cards now that they have accelerated payments digitization. What is more is that 53 percent and 87 percent of CFOs say their organizations are sending and receiving fewer check and cash payments, respectively, than they did prior to March 2020.

FIGURE 1:

How digitization has changed firms' usage of digital payment methods
Share whose organizations are using select payment methods more or less frequently due to digitization

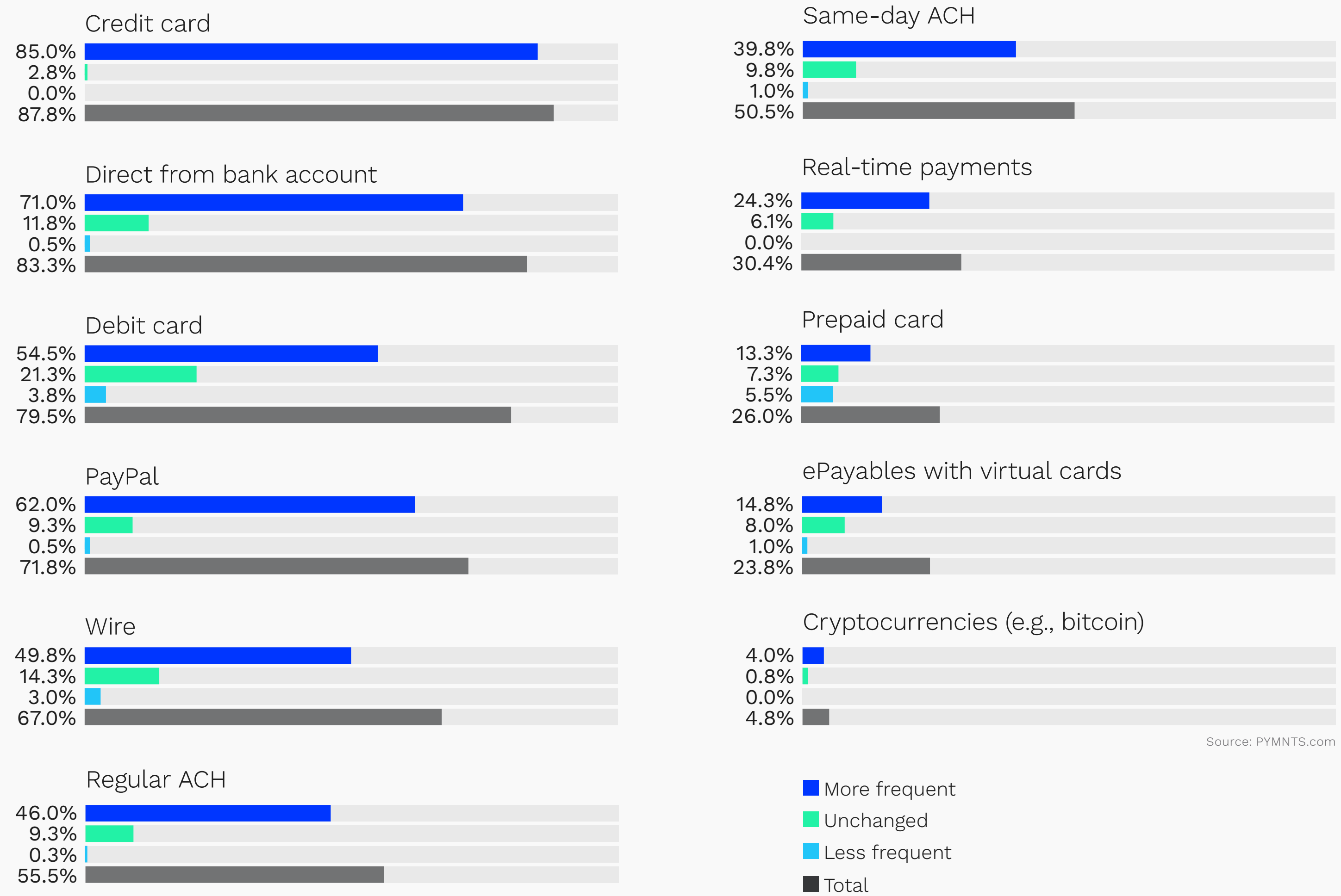
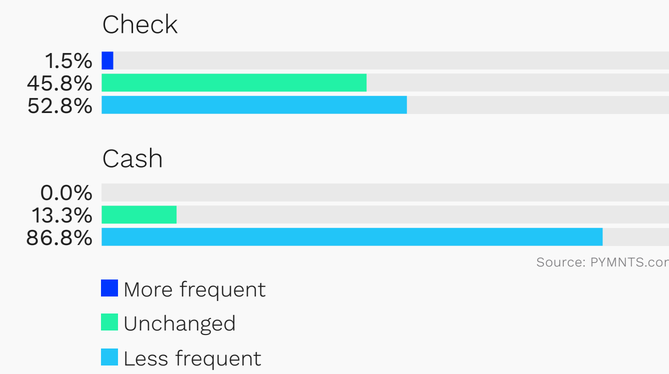


FIGURE 2:

How firms' use of cash and checks has shifted during digitization
Share whose organizations are using select nondigital payment methods more or less frequently due to digitization



CFOs' drive to increase their use of digital payments has coincided with attempts to reduce the use of manual, paper-based payments, such as cash and checks. Fifty-three percent of businesses that use checks say they have been making and receiving fewer check payments since fast-tracking payments digitization. Among firms that use cash, 87 percent are using them less often now than they once were.

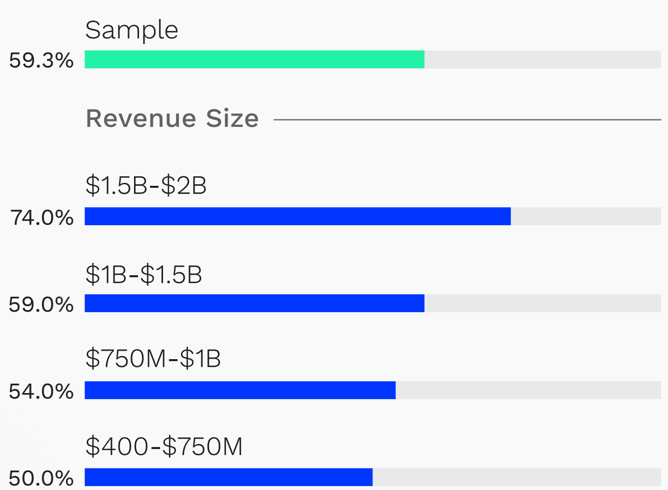
Balance Sheet Health Check

CFOs are investing in payments digitization because they believe doing so is integral to building and keeping healthy balance sheets. Fifty-nine percent of CFOs say that digitizing their payments operations is key to improving the health of their balance sheets, with those at the largest organizations believing even more strongly that digital payments can help them do so.

As firms grow in size, their CFOs become more likely to believe that digitization is key to maintaining healthy balance sheets. Seventy-four percent of CFOs working at firms with revenues between $1.5 billion and $2 billion — the largest firms in this study — say that digitization improves the health of their balance sheets, for example. Among CFOs at firms generating $1 billion to $1.5 billion in revenue and those generating $400 million to $750 million, 59 percent and 50 percent, respectively, see digitization as key to improving the health of their balance sheets.

FIGURE 3:

How many CFOs see payments digitization as key to improving balance sheets
Share who consider digitization to be "very" or "extremely" important to improving balance sheets, by firm size



Source: PYMNTS.com

59%

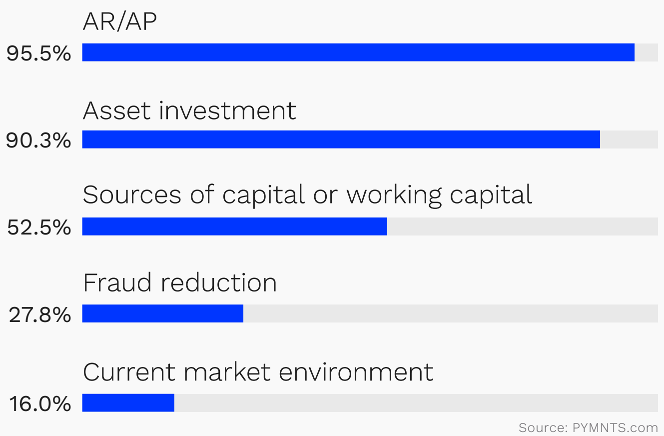
Share of CFOs who consider digitization to be either "very" or "extremely" **important for improving their balance sheets**

Having optimized accounts receivable (AR) and accounts payable (AP) processes is the first and most important component of a healthy balance sheet, according to the CFOs in our study, with 96 percent of them believing that AP and AR optimization is "very" or "extremely" important to keeping their balance sheets healthy. It follows that these firms would also emphasize the importance of digitization, which can help accelerate and streamline in- and outbound payments flows.

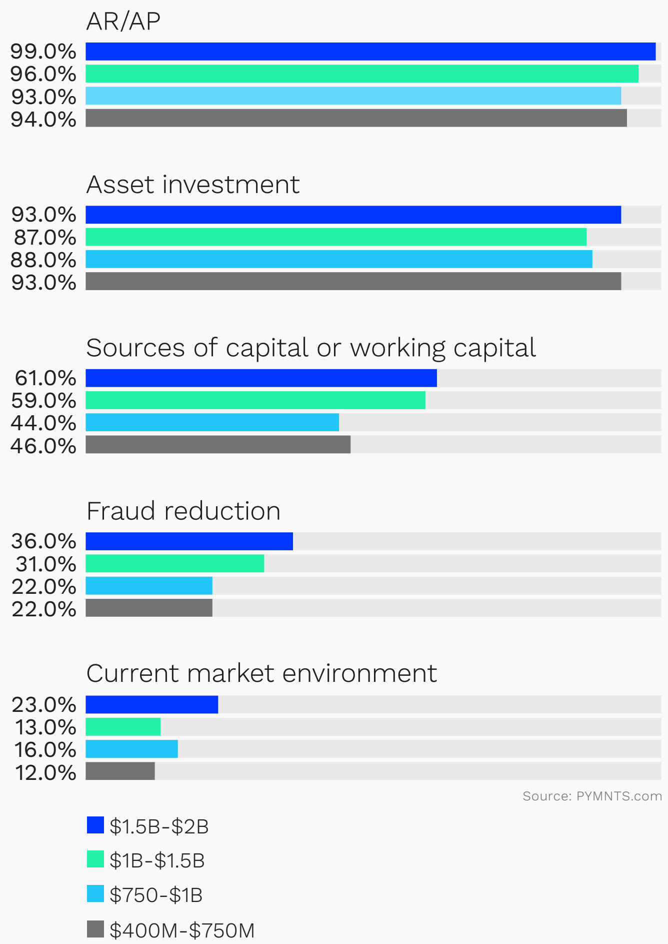
FIGURE 4:

Factors that CFOs believe contribute to healthy balance sheets

4A: Share who cite select factors as being "very" or "extremely" important to maintaining healthy balance sheets



4B: Share who cite select factors as being "very" or "extremely" important to maintaining healthy balance sheets, by size



Asset investments and sources of capital or working capital are also widely considered key components of healthy balance sheets. Ninety percent of CFOs see asset investment as critical, while 53 percent say the same of working capital.

The degree to which firms prioritize these factors varies depending on their annual revenues. Working capital is especially important to larger firms, for example. **Sixty-one percent of CFOs at firms generating between $1.5 billion and $2 billion in revenue and 59 percent of CFOs at firms generating $1 billion and $1.5 billion in revenue say that boosting working capital is critical to maintaining healthy balance sheets.**

90%

Portion of CFOs who believe that **asset investment** is "very" or "extremely" important for **maintaining a healthy balance sheet**

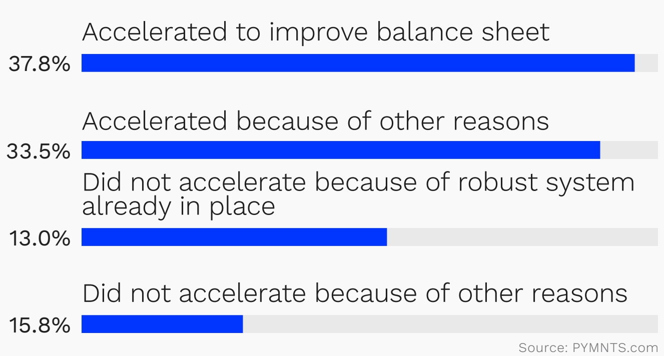
Digitization Drivers

CFOs' strong belief in the importance of payments digitization has undoubtedly helped fuel the wave of digital payments innovation, but it is not the only factor at play. Thirty-four percent of all CFOs who have accelerated their firms' digitization efforts report doing so for other reasons, with those at the smallest firms being the most likely to have done so. Thirty-eight percent of CFOs at the smallest firms in our study — those generating between $400 million and $750 million — say they fast-tracked digitization to reap the other benefits they believed it could yield for their businesses.

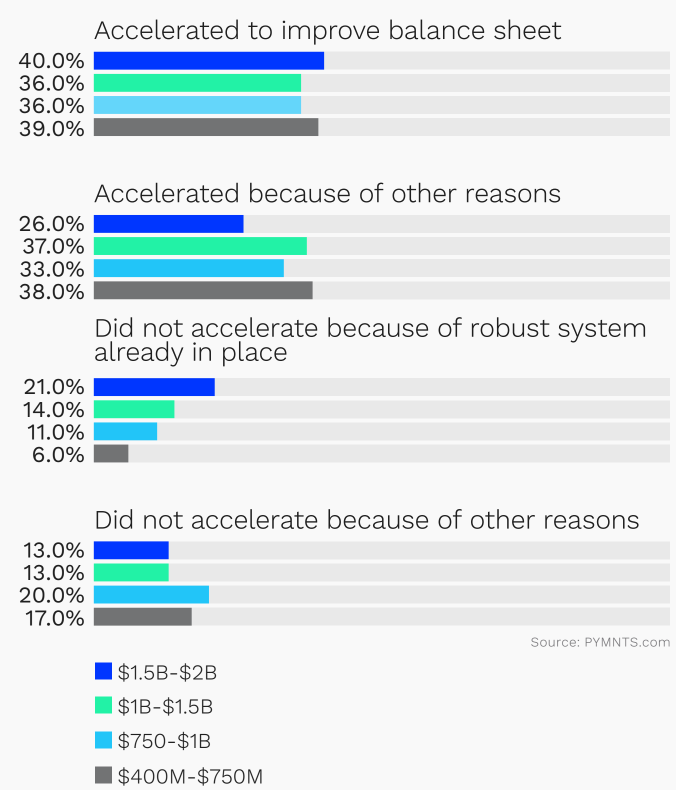
FIGURE 5:

Why CFOs have accelerated payments digitization since March 2020

5A: Share who accelerated their payments digitization for select reasons



5B: Share who accelerated their payments digitization for select reasons, by firm size



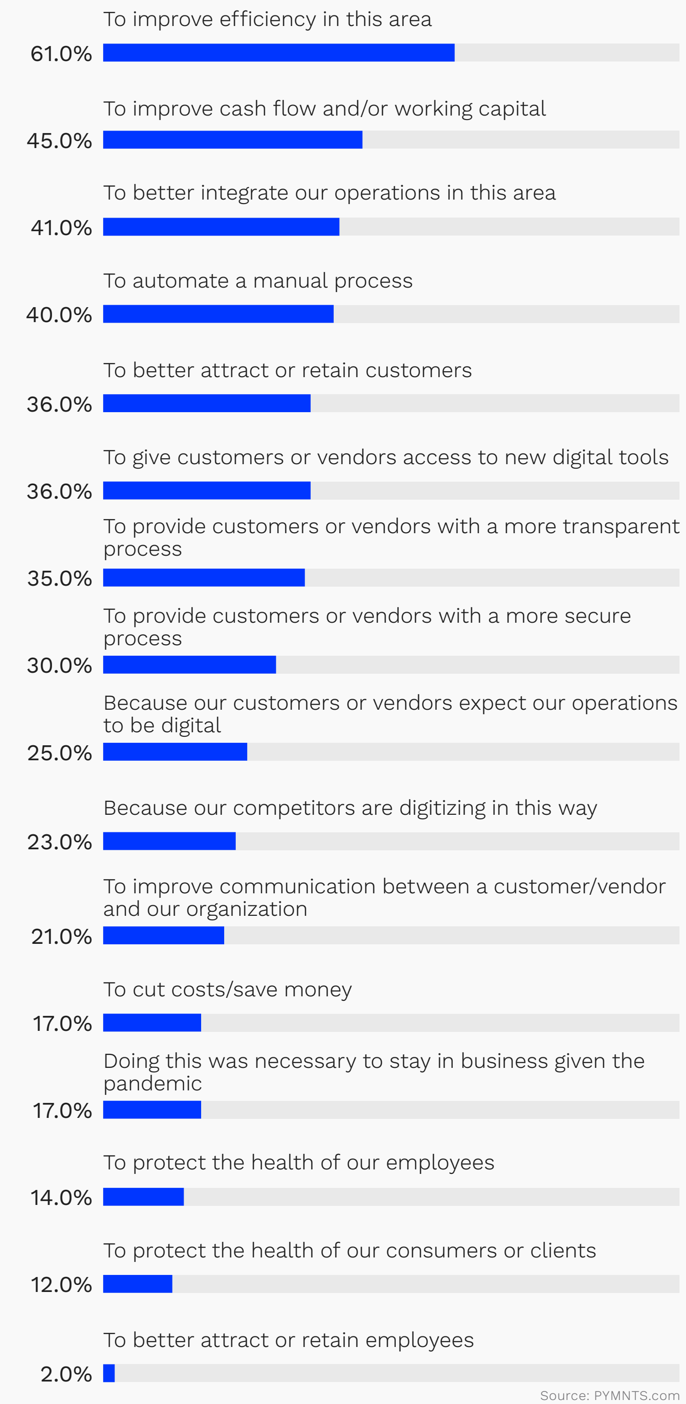
It is also important to realize that there is no single reason explaining firms' drive to digitize. Countless interlocking factors pushed digitization ahead, with CFOs reporting many ways that digitization could improve their businesses. CFOs cite an average of 4.5 reasons as to why they fast-tracked digitization, in fact, ranging from meeting supplier expectations to enhancing payment security and improving communication with vendors.

Improved payments efficiency is the most common factor driving CFOs' decisions to digitize. Sixty-one percent of CFOs report they accelerated digitization because they believed doing so would improve their payments operations' overall efficiency. Improving cash flow and working capital — another important component for overall balance sheet health — is cited by 45 percent of CFOs as a reason for digitizing. Greater integration, increased automation and an enhanced ability to attract and retain customers are also among CFOs' top reasons for fast-tracking digitization.

FIGURE 6:

The key reasons why CFOs have fast-tracked digitization

Share citing select reasons for accelerating their payments digitization efforts



Earning Results

CFOs' focus on payments digitization is paying off. Digitization has been instrumental in improving firms' payments efficiency and working capital, both of which they see as integral to balance sheet health. Ninety-one percent of CFOs say digitization has improved their payments efficiency, and 84 percent report improvements in working capital because of digitized payments flows. These improvements are seen among all firms regardless of size.

Respondents report that digitization has also improved firms' data security, supplier relationships and fraud detection, but the degree to which firms have seen these improvements varies depending on their size. The largest firms have seen their data security, supplier relationships and anti-fraud operations improve the most because of payments digitization. In comparison, for our entire sample, 50 percent of CFOs say that digitization has improved their anti-fraud operations.

Smaller firms are most likely to cite cost reduction as a benefit that they have seen because of payments digitization. The largest firms stand out for being the most likely to say that they have seen their supplier relationships improve after digitization.

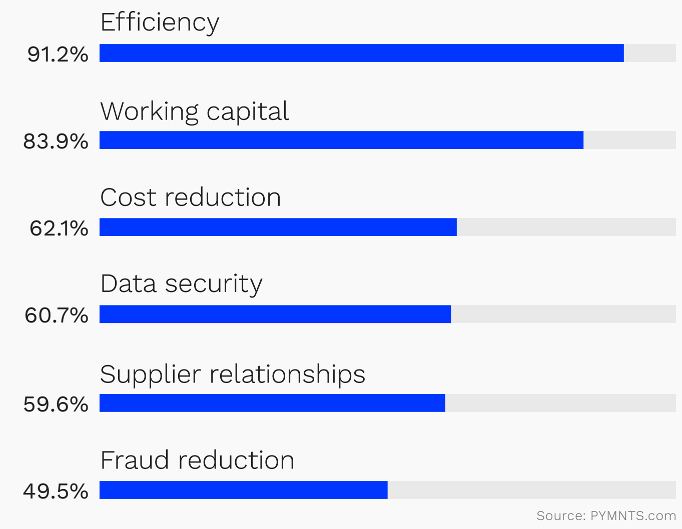
91%

Share of CFOs who say accelerating digitization has improved their **operational efficiency**

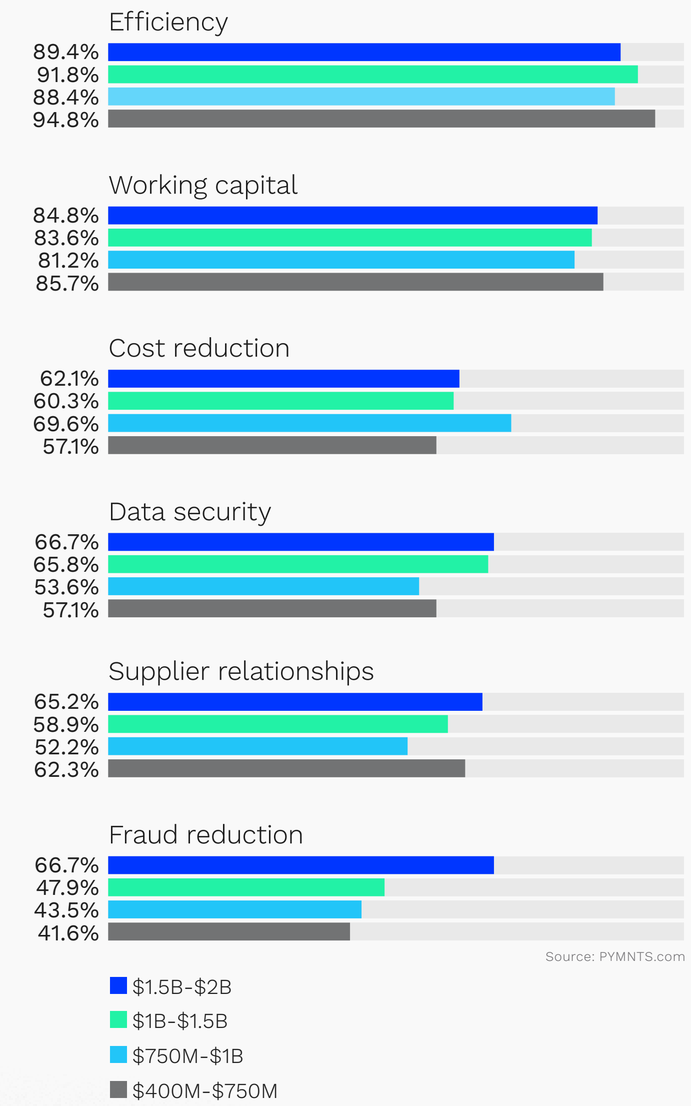
FIGURE 7:

How digitization has benefited the firms that have invested in it

7A: Share saying that accelerating payments digitization has had a positive impact on select areas



7B: Share saying that the transition to digital payments has had a positive impact on select areas, by size



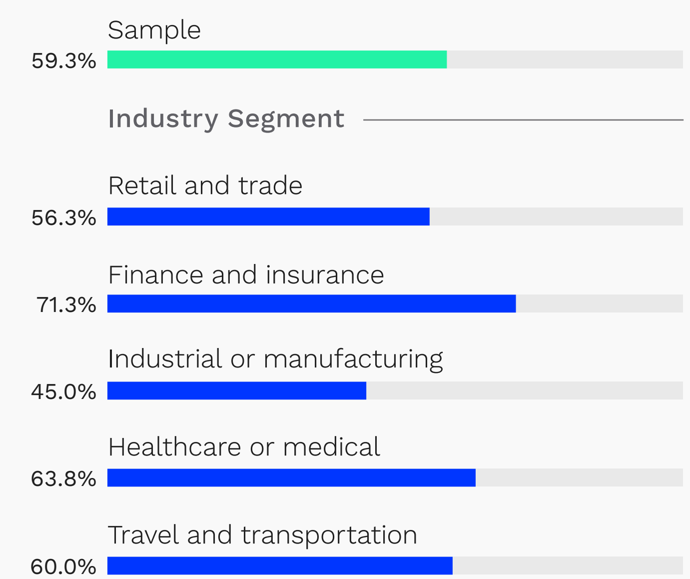
Deep Dive: The Segment Health Check

CFOs at finance and insurance firms understand the importance of payments digitization better than most. Seventy-one percent of them say that digitization is “very” or “extremely” important to improving their balance sheets, in fact — more than is seen among CFOs in any other industry. CFOs at healthcare and transportation and travel firms follow at just 64 percent and 60 percent, respectively.

Industrial and manufacturing firms are on the opposite end of the spectrum. They are the least likely to see digitization as integral to their balance sheets’ health, with just 45 percent believing it to be important. CFOs from firms in this segment are also the least likely to say they have accelerated their payments digitization efforts with the express intention of improving their balance sheets. Just 19 percent of these CFOs say that balance sheet health played a part in their decisions to fast-track payments digitization.

FIGURE 9:

How CFOs in different industries see payments digitization as key to improving balance sheets
Share who consider digitization to be “very” or “extremely” important to improving balance sheets, by industry



Source: PYMNTS.com

71% of **financial and insurance firms** see digitization as key to improving their balance sheets — more than in any other sector

Finance and insurance firms have led the way in digitizing to improve their balance sheets. Forty-eight percent of CFOs at financial and insurance firms and 48 percent of CFOs at healthcare firms accelerated payment digitization to improve their balance sheets — and they are reaping the rewards.

Eighty-seven percent and 90 percent of firms in both the financial and insurance and healthcare sectors, respectively, say that digital payments have helped enhanced their working capital. They are also more likely than firms in other areas to say that digitization has enhanced their payments' data security, leaving firms in sectors that have been slower to digitize in the dust.

FIGURE 10:

Why CFOs have accelerated payments digitization since March 2020
Share who accelerated payments digitization for select reasons, by industry

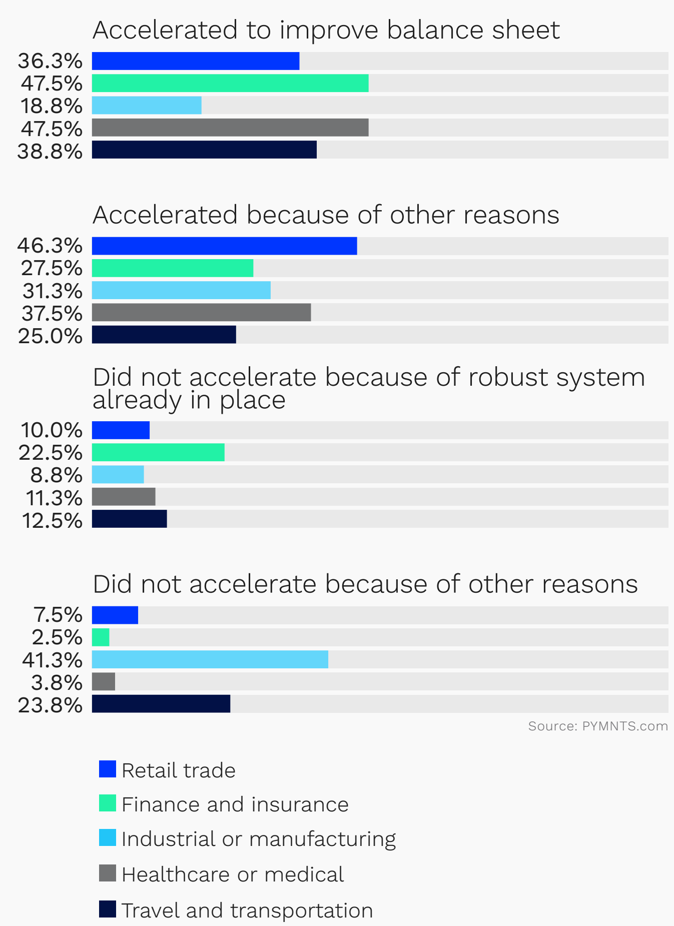
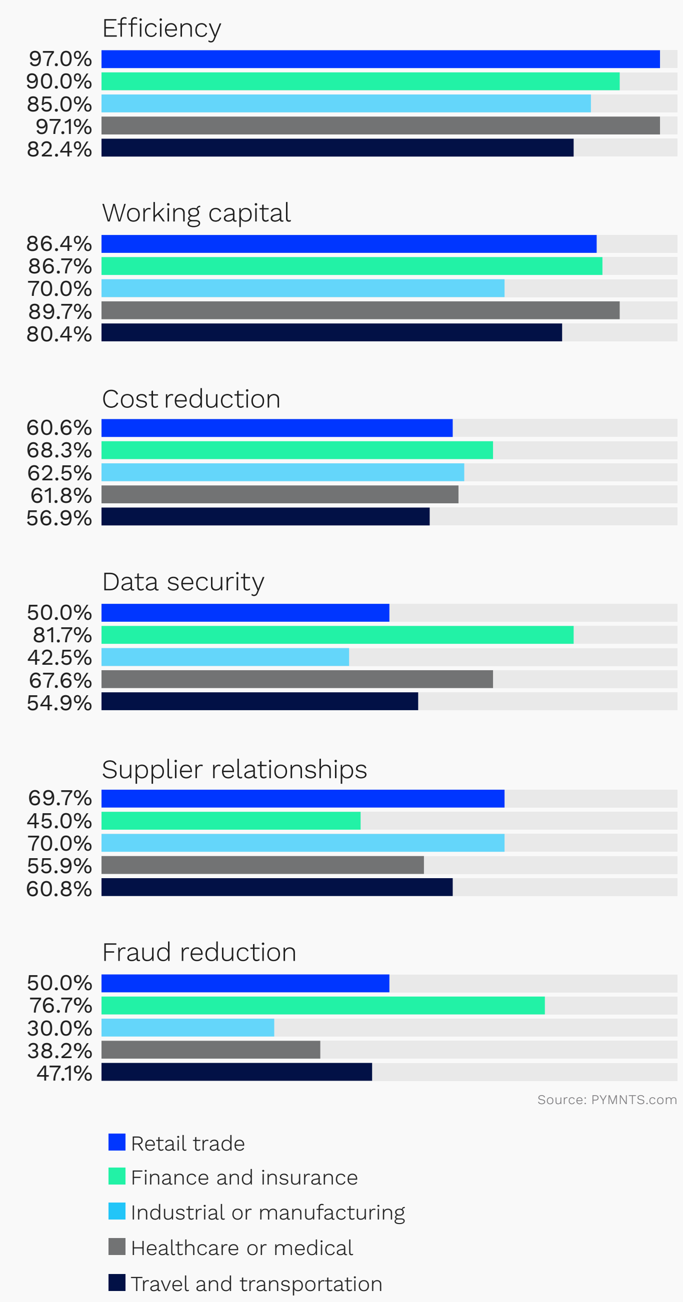


FIGURE 11:

How digitization has benefited the firms that have invested in it
Share saying that the acceleration of payments digitization has had a positive impact on select areas, by size



Industrial and manufacturing firms are the **furthest behind in their digitization efforts.**

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Conclusion

CFOs' drive to improve their organizations' financial health is fueling a wave of payments digitization across multiple market sectors, with 71 percent of businesses having fast-tracked digitization since the pandemic's onset. The CFOs from businesses that have invested in more digital payments operations believe these efforts will result in stronger, healthier balance sheets, whether that means having improved in working capital, streamlined AR and AP processes or improved customer and partner satisfaction.

Methodology

Business Payments Digitization: A Path To A Better Balance Sheet is based on a survey of 400 Chief Financial Officers representing several United States business sectors. These executives belong to middle-market firms ranging from $400 million to $2 billion in annual revenues, from five sectors: manufacturing, finance, retail, transportation and healthcare.

The survey consisted of 34 questions regarding digital transformations and it was conducted from August 16 to September 15, 2021.

About

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