B2B DIGITAL PAYMENTS

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ACKNOWLEDGMENT

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EDITOR'S LETTER

Digitization is a key driving force behind innovation in today's business-to-business (B2B) ecosystem. Businesses have grown more comfortable with making digital purchases as more of their partners shut their physical doors and take their operations online. Businesses have long been familiar with debit- and credit card-based transactions, but new, more secure electronic payment options have begun making waves in the space.

One such payment option is virtual cards, which function in much the same way as traditional debit and credit cards but have no physical presence and typically are linked to digital wallets, making them more secure and easier to safeguard from fraud. They can enable businesses to optimize their working capital because payments are more likely to be made promptly, preventing finance and accounts payable (AP) teams from holding funds longer than necessary. B2B businesses thus can use virtual cards to keep their cash flows steadier.

PYMNTS' data shows that the pandemic has been a key factor in the reinvention of the B2B invoicing and payments space. B2B businesses historically have relied on outdated and inefficient paper-based processes, especially paper checks. Digitization has led them to integrate or increase their use of electronic and digital payment methods, however. Automated clearing house (ACH) transfers in particular have experienced a massive surge among B2B buyers' transactions over the past two years, with ePayables via virtual cards and real-time payments trailing closely behind. Forty percent of CEOs say their check usage has become less frequent since digitization.

A growing number of businesses in the hospitality sector are recognizing the efficiency of virtual cards for expense management and AP operations. Virtual cards enable these businesses to keep cards on file with vendors, enabling them to expedite their future purchases by reducing the time they spend entering details at the point of sale (POS). As a result, virtual card use frequency among hospitality clients increased 300% from the start of the pandemic through May 2021. This trend continues, with suppliers being more willing to accept virtual cards and electronic payments.

This edition of the B2B Digital Payments Tracker, a PYMNTS and American Express collaboration, delves into why B2B merchants are incorporating virtual cards into their daily operations to eliminate operational disruptions, decrease fraud and improve insights into employee spending. It also examines how virtual cards can improve vendor relationships and reduce time between payments to optimize cash flow.

THOUGHT LEADERSHIP TEAM

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Feature Story

Lockstep On **Harnessing The Power Of Virtual Cards** To Improve AP Efficiency

The need for digital channels during the pandemic highlighted the shortcomings of manual payment processes for AP departments. When it comes to their greatest operational challenges, 62% of financial professionals experienced delays in expense reimbursement, invoice processing and vendor payments after shifting to remote work, for example. Matthew Shanahan, cofounder and chief strategy officer at connected accounting FinTech company Lockstep, said such pain points often are what lead to shifts within the industry, and one major trend now making a difference in the B2B sector is the use of virtual cards for improving AP efficiencies.

"Powering automation is one of the things that virtual cards do and, if you're in a remote situation, that's exactly what you're looking for," Shanahan said in a recent interview with PYMNTS. "Getting rid of paper lets you skip having to go into the office, and using a cloud-based solution lets you get accounting workflow out of personal inboxes and into a shared workspace where virtual cards enable efficient payments."

Virtual cards are a type of payment tool that work much like credit or debit cards, except the card numbers are randomly generated and do not exist in a physical manner, adding a level of security that only enhances their appeal. Their global worth is anticipated to reach $6.8 trillion by 2026, $4.9 trillion higher than the 2021 valuation, suggesting that a growing number of businesses are recognizing the simplicity of their use compared to slow and costly outdated methods such as paper checks. B2B payments account for the majority of payments processed via virtual cards, and CFOs must take note or risk falling behind their more digital-forward competitors.

MANUAL PAYMENT PROCESSING CREATES ROADBLOCKS

With the recent spike in cross-border eCommerce sales, businesses increasingly are looking for ways to expand their reach. Conducting transactions in different regions means processing and handling local currencies, as well as catering to a seemingly endless array of payment preferences, however, and manual processes will only hold these companies back. Even so, PYMNTS research shows that nearly one-quarter of B2B firms still are using paper checks to process payments.

"If you're trying to grow [your business], manual processes are the biggest challenges," Shanahan explained. "Manual processes hold you back from creating scale in your business. If you suddenly get 1,000 new customers, you add on 50 new vendors or you make an acquisition, your processes need to suddenly scale, but if the processes are manual, they'll hold you back.... The other [challenge] is that your third-party relationships become strained when you can't scale because your manual process make you less responsive and reliable."

Fraudsters often take note of such growth occurring. Half of all corporations experienced serious fraud attempts or losses during the last two years, with AP named the most commonly attacked sector. Business email compromise (BEC) was markedly one of the most detrimental fraud schemes used to target invoices or payments throughout the pandemic.

"If you're sending your routing information, your account numbers and things like that through email... that's a situation where your financial data can be compromised," he continued. "It's easily forwarded, and somebody can get hold of that document."

VIRTUAL CARDS ENABLE B2B BUSINESSES TO PAY THEIR VENDORS MORE QUICKLY AND SAFELY

Manually processing invoices inherently is error-prone, time-intensive and inefficient, and 20% of CFOs agree that legacy systems often result in excessive delays. By sending and receiving payments via virtual cards, however, finance and accounting teams then can focus on more strategic initiatives to improve customer relationships and help their organizations grow.

"Virtual cards are great in a couple of ways, especially if you combine [them] with workflow automation," Shanahan said. "With a virtual card, you can have a unique card number for every one of your transactions that you do, which is pretty cool, because now you've got this unique identifier on the virtual card itself. So that unique identifier can be tied to both the purchase order and the payment, creating this link between them."

Virtual cards also are not linked to the business' main account but rather to a digital wallet, so the company's sensitive data is at a lower risk. They also reduce the possibility of vendors accidentally reusing a company's account information to process an illegitimate payment and help those vendors to be paid faster, especially for B2B organizations.

"[Virtual cards for AP processing] creates a lot of efficiency, a lot of traceability, a lot of control and security as a result of that," he said. "And it's very convenient. It's less expensive when you're doing it that way."

> "If you're trying to grow [your business], **manual processes are the biggest challenges.** Manual processes hold you back from creating scale in your business."

Q&A

RJ ANCONA
Vice president and general manager,
B2B, National Client Group

What are some of the digital B2B payment trends that have emerged or evolved since the pandemic began, and how are electronic payments helping businesses overhaul their antiquated manual processes?

"Since the pandemic began, we continue to see the adoption of a wide variety of digital B2B payment solutions. In particular, organizations have really leaned into adoption of AP automation solutions and, as a result, we also see their suppliers relying heavily on AR automation partners to accept and apply these payments with efficiency.

Throughout the pandemic, access to check payments for companies was very limited (as well as lockbox access for suppliers to receive these payments). For many companies, the pandemic accelerated the reliance on these digital solutions to replace their check processes and optimize payment terms.

These AP automation solutions offer optimized cash flow and payment visibility for organizations through integrated card and ACH capabilities — all while improving visibility and confidence that suppliers receive these payments in a timely manner, integrated with invoicing and ERP systems.

Additionally, we have seen a number of suppliers across various industries open up digital channels to accept card payments as eCommerce dramatically accelerates. This includes the adoption of payment portals and supply chain finance offerings to accelerate invoice and point-of-sale settlement. The importance of getting paid quickly has only increased during the pandemic."

How are virtual cards in particular helping B2B companies streamline their payments, and what sets them apart and elevates them from traditional physical debit or credit cards?

"First and foremost, virtual cards can drive a significant amount of efficiency for an organization. The elimination of manual processes, such as keying in details, and reconciliation benefits are all things AP departments consistently seek to improve. Adoption of virtual cards only accelerates that.

Virtual cards also offer companies an added layer of security and control. Single-use cards ensure that only particular charges/invoices are authorized, and they help companies track and ensure lines of credit are not open unnecessarily. Depending on the size of the organization, this may also prevent unnecessary employee cards being issued.

Finally, virtual cards still provide a tangible return to the organization through rewards or cash-back rebates. Companies can earn the benefits of their traditional physical cards and optimize float not offered on debit cards — all while in a 100% virtual environment."

How Virtual Cards Are **Reinventing How Businesses Pay Their Vendors**

The pandemic has thrust virtual channels into the spotlight as consumers all over the world have migrated online during shutdowns and operational restrictions. This digital shift has highlighted the many conveniences of eCommerce transactions, leading to permanent behavioral changes among merchants and consumers alike. Sixty-four percent of B2B buyers expect the ability to pay for their purchases online, and 56% demand several payment options.

Virtual cards are one notable payment option, and their growing momentum in the B2B space cannot be ignored. Companies can incorporate virtual cards into their B2B payment processes to improve cash flow, enhance security and enable AP automation more seamlessly than when they rely on clunky, antiquated methods such as paper checks. Enabling virtual card acceptance through accounts receivable (AR) automation also can increase efficiency and help businesses capture large spend opportunities. B2B transactions will account for 71% of virtual card transactions, even though B2B sales will represent a mere 1% of all transaction volume. The few transactions that do occur are very high value, however, making them enticing fraud targets and higher stakes for B2B companies. As such, B2B sellers and their vendors would be wise to automate and secure these features to accelerate larger payments as safely and proficiently as possible.

VENDOR PAYMENTS DRIVE UP FRAUD, OPERATIONAL INEFFICIENCIES

Bad actors have taken advantage of the uptick in digital transactions since the pandemic's onset to launch numerous schemes. BEC fraud attacks targeting invoices and payments rose 155% between Q2 and Q3 2020, in fact, while a recent survey revealed that nearly half of all organizations reported severe fraud attempts on their systems in 2021 and 15% suffered major financial losses as a result. Inadequate AP processes contributed heavily to such attacks, with 54% of firms reporting that their AP departments were targeted. Perhaps most shockingly, 69% of these attacks were carried out by bad actors impersonating existing or new vendors.

Vendor payments remain a major pain point for B2B companies, especially for those still using time-intensive, inefficient and often error-prone manual processes. One-quarter of AP professionals report that manual administration negatively affects their relationships with third-party vendors, yet nearly 25% of all B2B payments still are being made via paper checks. While it is true that a growing number of businesses are leaning favorably toward digital payment methods, a significant portion of organizations continue to forgo digital options that could help them better meet their vendors' payment expectations.

DIGITIZATION LEADS TO INCREASED FREQUENCY OF VIRTUAL CARD USE

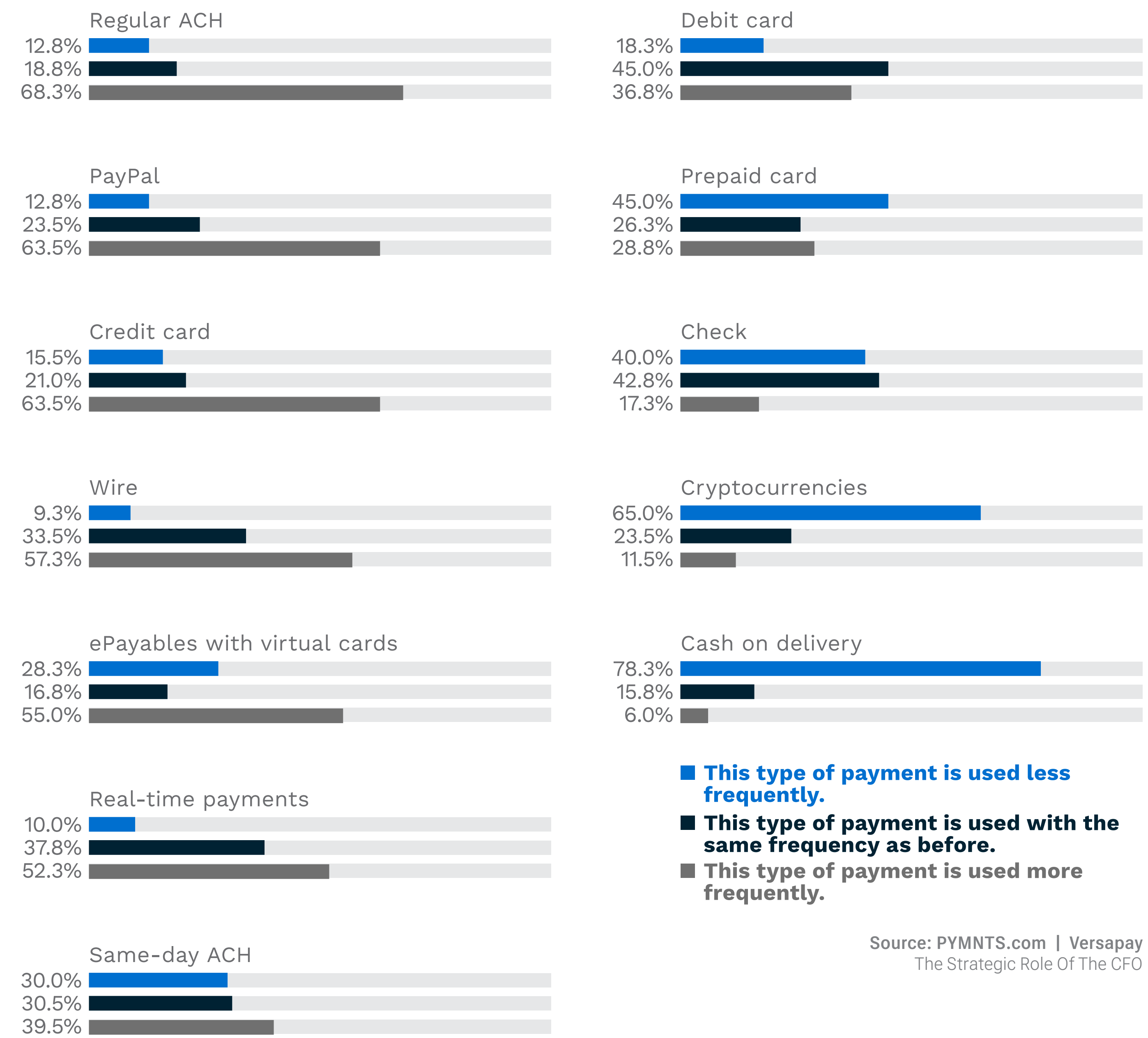
Accelerated digitization inspired a series of financial experiments, many of which have proven staying power. Cash, checks and physical debit or credit cards were the most commonly used payment methods before the pandemic, but 55% of CFOs now say ePayables with virtual cards are used more frequently because of digital innovation, for example. Use of manual methods is trending in the opposite direction, with 78% using cash on delivery less frequently and 40% reducing their paper check usage.

Digital cards also continue to gain traction in the AP arena, driven in part by hospitality sector businesses and their recognition of the convenience of card-on-file procedures for their vendors. PYMNTS' data shows that electronic B2B payments within the hospitality industry increased 300% between January 2020 and May 2021, with more suppliers accepting physical or virtual card transactions as well as non-card-based options such as ACH transfers. This trend extends far beyond restaurants and hotels, however. Approximately 64% of all companies are making more than half of their B2B payments electronically, and only 28% still are processing transactions manually.

FIGURE 1:

THE SHIFT IN PAYMENT METHODS

Share of CFOs who say use of select payment types became less or more frequent due to digitization



Source: PYMNTS.com | Versapay
The Strategic Role Of The CFO

B2B executives have expressed growing confidence in electronic payment methods, with 47% citing efficiency as the driving force behind their adoption of new automated payments solutions. ACH remains the most sought-after electronic payment processing tool, but 28% of company leaders also plan to invest in virtual cards in the near future. Such investments can help AP departments ensure their vendors are paid in a timely manner despite pandemic-related operational hiccups.

One feature that sets virtual cards apart from other electronic payment methods, however, is their ability to offer integrated security features. Unlike traditional debit or credit cards, digital cards rely on tokenization to process the cardholder's transactions, creating a unique and randomly generated single-use code to process each payment. The risk of fraudsters acquiring the data used to conduct a virtual card payment — and being able to leverage these details if they do — is astronomically low compared to physical card transactions, and its digital footprint makes suspicious activities easier to track. This is particularly meaningful for businesses because high traffic often can result in difficulties detecting fraudulent behaviors.

Virtual cards have a promising future as a secure, convenient B2B payment method, even when compared to debit-based ACH, which currently is the frontrunner in the electronic payments space. ACH debit accounted for 34% of payment fraud in 2020, while virtual cards accounted for a mere 3%, for example. B2B companies that have not done so already should consider incorporating virtual cards into their daily operations to decrease fraud, improve vendor relationships and provide more insight into companywide spending.

NEWS & TRENDS

VIRTUAL CARDS IN THE B2B SPACE

MORE THAN HALF OF TRAVEL BUYERS EXPECT GREATER USAGE OF VIRTUAL CARDS IN NEAR FUTURE

As the travel sector steadily regains its footing, business travelers are looking to new payment methods to cover their trip expenses. Corporate cards remain the most popular payment method to settle travel costs, but virtual cards quickly are gaining traction. A recent global survey of 106 travel buyers found that 37% cited virtual cards as their primary financial source for expenses, and 52% expect to use virtual cards more frequently over the next five years. Contactless payments, virtual expense solutions and greater insight and control over payments also were noted as prevalent developments in today's digital-first environment.

Respondents also shared their opinions on related payment and expense trends that they expect to see within the next five years. More than half believe more users will adopt mobile payment methods, 35% expect greater adoption of expense management applications and 35% see biometric verification as technology with staying power.

VIRTUAL CARD TRANSACTIONS EXPECTED TO TOTAL $6.8 TRILLION GLOBALLY WITHIN FOUR YEARS

Many issuers now are offering virtual cards to meet their clients' growing demands for digital-first options, and these cards quickly are becoming a preferred payment method in various markets worldwide. Recent research suggests that the global value of virtual card transactions will jump from $1.9 trillion in 2021 to $6.8 trillion in 2026, highlighting the method's growing importance for B2B transactions.

The average company makes more than 2,000 domestic payments annually, and gig economy organizations such as ride share apps or food delivery services can use virtual cards to extend earned wage benefits to their contract workers. Virtual cards also can help employers track workers' business expenses and set transaction limits to prevent overspending and misuse of funds. This could be especially valuable for B2B providers that rely on buyers to purchase large quantities of products for resale.

B2B PAYMENTS DIGITIZATION IoT

AR AUTOMATION IMPROVES DSO RATES FOR BUSINESSES

Manual AR processes have long been riddled with pain points, a fact that was further amplified by the pandemic. Disruptions in cash flow and invoice reconciliation led to an increase in days sales outstanding (DSO), a problem that can be improved significantly through automation. As a result, many businesses increased their investments in technology, and 62% of firms ultimately saw their DSO rates improve as a direct result of AR automation. Energy and advertising organizations have fared particularly well from AR automation adoption, as 88% and 87%, respectively, witnessed truncated DSO cycles.

The pandemic has made automation high stakes for companies across all sectors, especially healthcare and construction firms. The average DSO of firms that have automated their payment acceptance processes is 40 days, for example, and the average DSO of those that have automated their invoice delivery processes is 41 days. Firms that have forgone automation efforts, however, have an average DSO of 47 days. In addition to longer transaction times, companies that continue to rely on manual processes ultimately will suffer from greater organizational roadblocks and cash flow challenges than those adopting automation.

MOST B2B PAYMENTS COULD BE COMPLETED ELECTRONICALLY BY 2025

Switching from tedious manual processes to digital payments can save CFOs time and enhance workers' productivity. A growing number of AP and AR departments now recognize the benefits of digitization, and upward of 80% of buyer-to-supplier transactions could be completed electronically by 2025. Companies digitizing their B2B payments can pay vendors more quickly and can more effectively manage their cash flow, freeing up funds to help them fuel innovation efforts and promote growth. These tools also can give B2B suppliers a better idea of how they spend their money or where they obtain the bulk of their revenues.

Digitization also can help smaller companies stay competitive as more businesses operate and transact remotely. Seventy-nine percent of CFOs said the pandemic influenced their decisions to accelerate their technological innovations. The same pool of executives said the pandemic fueled small to mid-sized businesses' (SMBs) adoption of digital service due to the need for updated payments ecosystems, such as electronic payment capabilities, and improved cash flow.

B2B eCOMMERCE TRENDS

CONTACTLESS PAYMENTS REMAIN TOP-OF-MIND FOR ISSUERS IN 2022

Contactless payment adoption continues to rise in 2022, especially among younger generations. A recent report showed that more than half of millennial and Generation Z small business cardholders conduct contactless payments either “frequently” or “whenever available.” It seems the next generation of entrepreneurs is onto something, as data points to a connection between contactless payment usage and greater revenue. Forty-four percent of respondents from the highest-revenue firms said they make contactless payments “frequently” or “whenever available,” compared to less than one-quarter of respondents from the lowest-revenue firms.

Michael Ellison, president of Corporate Insight, explained that the popularity of alternative payment options, including contactless transactions, digital wallets and virtual cards, varies across the United States, but issuers ultimately will need to adapt to properly evolve alongside the growing number of users, especially among the younger generations. Adoption likely will be a fruitful effort, however, and satisfaction rates for the four most prominent digital wallets range from 82% for Google Pay to 89% for PayPal and 90% for Apple Pay.

eCOMMERCE SURPASSES IN-PERSON POS AS MAIN SALES CHANNEL

B2B customers are taking their purchases digital, and many are planning to keep them that way for the foreseeable future. A recent survey found that B2B executives now use an average of 10 channels when interacting with suppliers, a twofold increase from 2016. It also revealed that buyers are growing more comfortable spending significant amounts of money via remote, digital channels, with more than 70% willing to spend $50,000 or more and 35% prepared to spend $500,000 or more.

These trends have pushed the B2B eCommerce space past a tipping point, with eCommerce now surpassing in-person options as the primary sales channels, at 65%. Thirty-two percent of executives said eCommerce was the single most accessible channel, compared to 23% who said the same about in-person transactions.

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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.

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