Virtual Cards:

The Future of B2B Payments

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As B2B payments evolve, organizations are recognizing the strategic advantages of modernizing manual processes to help address cash flow visibility, fraud prevention and operational efficiency. This white paper uncovers the critical challenges posed by manual processes and explores the transformative potential of virtual cards in B2B payments.

KEY HIGHLIGHTS

Challenges with Manual Payments

- Outdated AR methods are linked to cash flow issues, with 59% of U.S. businesses citing poor forecasting due to manual processes.[1]
- Manual payment methods are susceptible to errors, friction and fraud, with 65% of businesses reporting attempted or actual fraud activities, predominantly through checks.[2]

The Case for Virtual Cards

- Virtual cards offer agility and efficiency by helping to streamline payment processes, lower administrative overhead and reduce delays associated with checks and wires.
- Middle market firms in North America increased virtual card usage by 54%[3], with top-performing companies reporting, on average, $11 million in annual savings from optimized cash flow management.[4]

Security and Transparency

- Virtual cards enhance security with unique card numbers, spending limits and immediate deactivation post-payment, making them a reliable alternative to physical checks.
- Increased payment transparency and immediacy from virtual cards can help improve business relationships, foster agility and reduce revenue loss caused by payment uncertainties.

Impact on Buyer-Supplier Dynamics

- Virtual cards can allow suppliers to negotiate advantageous terms and fast payments, thereby fostering a more balanced and mutually beneficial dynamic between suppliers and their buyers.

For decades, B2B payments took a backseat to other components of corporate finance. Today, B2B payments are front and center for businesses looking to streamline operations. Companies are reevaluating their financial transactions and moving toward efficient systems that can adapt to changing economic and regulatory landscapes.[5]

59%

of U.S. businesses link **poor cash flow and forecasting** to outdated **manual AR methods**.[6]

Virtual cards can offer efficiency and certainty in B2B transactions — but overcoming suppliers' reluctance to accept them will be the key to unlocking their power.[8]

> **"Manual payments are more likely to result in late B2B payments. And these delayed payments have consequences."**
>
> **– Trina Dutta,**
> Vice President and General Manager of B2B Solutions and Global Commercial Services at American Express[7]

The Changing Face of B2B Payments

Years of digitization of B2C payments have significantly shifted expectations among increasingly tech-savvy B2B buyers and suppliers. As businesses adopt digital-first strategies, the demand for personalized, on-demand financial tools has surged.

The impact of digitization goes beyond convenience. Digital solutions can drive improved cash flow predictability that allows businesses to plan more effectively and invest strategically. With real-time access to financial data, businesses can make informed decisions that help ensure they are agile enough to respond to market shifts.

It's no wonder, then, that CFOs and treasurers are no longer satisfied with traditional methods of managing working capital. They are turning to digital solutions to enhance their working capital efficiency as a strategic lever for driving business growth.[9]

Operational and Financial Inefficiencies

Processing manual payments is a time-consuming drag on teams that could better spend their time on other initiatives. Even worse, manual payments can lead to errors and create friction that can disrupt cash flow. This can put B2B companies' bottom line at risk and damage important buyer-supplier relationships.[10]

THE FRAUD RISK IS REAL

65% of surveyed businesses said they were **victims of actual or attempted fraud**.[11]

63% said their **fraud activity** was **mainly via checks**.[12]

In the U.S., 57% of surveyed businesses say they have trouble managing credit risk due to outdated manual AR processes. Even more troubling, 21% of AR teams relying on manual processes find it challenging to determine fundamental financial measures such as the credit-sales-to-AR ratio. The inability to use critical financial data creates a ripple effect that can distort strategic decision making and severely limit business agility.[13]

What Is a Virtual Card?

Virtual credit cards are a flexible electronic payment method typically created for purchases at set amounts. They use a 15-digit credit card number, but there's no physical credit card to keep track of.

B2B virtual cards make up the largest share of virtual card spend, beating out consumer virtual card spend.[14] Virtual cards are most commonly used over email to help speed up B2B payments.[15]

GLOBAL VOLUME OF VIRTUAL CARD TRANSACTIONS

35.8 billion in 2023[16]

174.3 billion predicted for 2028[17]

Virtual Cards as a Working Capital Strategy

The shift toward digitization has led to a rise in virtual card use. Virtual cards were once used solely as a payments solution, but they are now deployed as a tool to help manage working capital. In fact, leveraging virtual cards and negotiated terms — such as discounts for early payments — are among the hallmarks of top-performing companies. The impact is meaningful, as these top-performers have saved $11 million on average.[18]

Middle market firms in North America have **increased their virtual card use by 54%** — and at the expense of more traditional working capital options.[19]

Historically, virtual card use tipped the balance of power in the transaction toward B2B buyers, who were able to dictate the payment terms and methods. However, the growing appetite for working capital certainty is leading both buyers and suppliers to conclude that virtual cards for B2B payments offer a blend of efficiency, security and flexibility that traditional payment methods struggle to match.[20]

BETTER TERMS

Suppliers are now starting to use virtual cards to negotiate advantageous terms with their buyers. These terms can include things like suppliers accepting earlier payments in exchange for discounts, preferential status or guaranteed purchase volumes.[21]

Firms not using virtual cards experience an average **revenue loss of 4.6%** from payment uncertainties.[23]

INCREASED TRANSPARENCY

Lack of standardization and transparency across B2B payments causes costly payment delays that create uncertainty around working capital. Virtual cards help solve these difficulties by enabling instant settlement of B2B payments.[22]

STREAMLINED PROCESSES

Virtual cards streamline the B2B process by eliminating the need for slow wires, checks, cash, and keeping physical cards on hand. This can help reduce administrative overhead costs and potential delays associated with traditional payment methods.[24]

28% of surveyed companies said **inefficient AP and AR processes** led to **reduced cash flow visibility**[25]

Nearly **50%** say **manual review** of payments **causes friction** on the back end[26]

FRAUD MITIGATION

As check fraud schemes become increasingly sophisticated, payment security is critical. Virtual card payments provide features that make them significantly safer than checks, reducing the risk of fraud in B2B transactions.[27]

VIRTUAL CARD SECURITY FEATURES

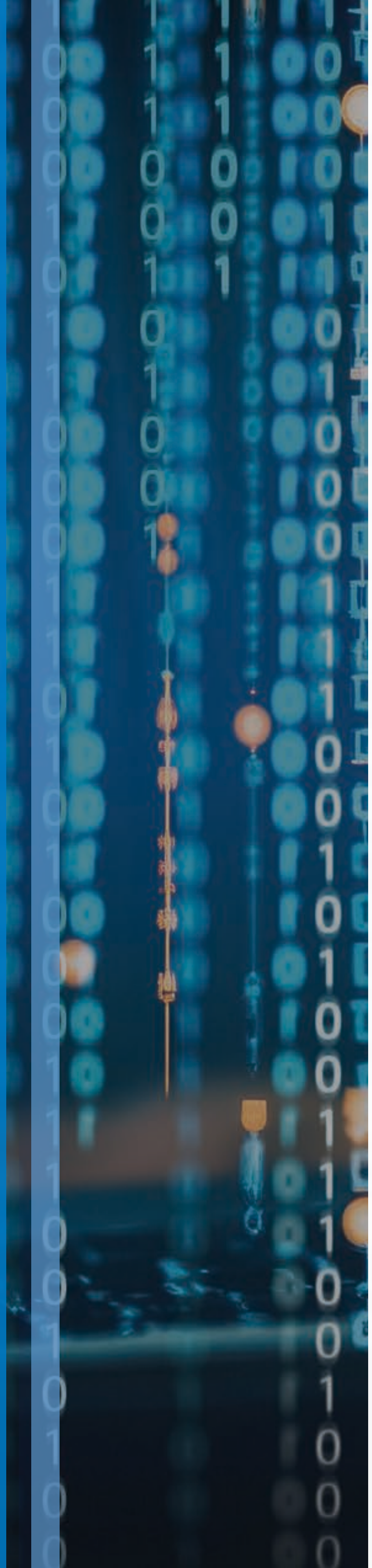
- No physical card data to expose
- Ability to block or freeze instantly
- Unique card numbers for designated uses
- Adjustable spending limit
- Unique security codes and expiration dates
- Automated deactivation after use[28]

> **"Embracing virtual cards isn't just a prudent choice; it's an indispensable step towards a resilient and secure future in the realm of B2B transactions."**
>
> **– Elly Aiala,**
> Chief Compliance Officer at Boost[29]

Virtual Payments Can Help Unlock the Benefits of Automation

Virtual cards are a key piece to the automation puzzle for many B2B companies. Suppliers can benefit from fast payments, reduced days sales outstanding (DSO) and customer loyalty. Fast payments can lead to healthy cash flow for suppliers, while process efficiencies help enable them to settle and reconcile payments more smoothly.

In this way, automation doesn't just help eliminate friction from payment processes — it helps foster strong, reliable partnerships between buyers and suppliers.[30]



Partner With Experts on the Path to Payment Digitization

With the right partners by your side, you can confidently begin the journey toward a fully automated payments process. American Express is here to help.

Contact American Express for a consultation.

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