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What COVID-19 Means For Logistics, Now And In The Future

NEWS AND TRENDS - PAGE 14
Hygiene suppliers revise manufacturing strategies to meet demand surge

DEEP DIVE - PAGE 24
Reinventing supply, demand and purchasing across industries in the COVID-19 era
A look at how businesses are strategizing to address shifts in demand and supply chain complications to stay afloat during the COVID-19 pandemic while strengthening customer relationships.

An interview with Brian Reed, vice president of business development and supply chain optimization at global transport and logistics company GEODIS, on the pandemic’s effect on air, land and sea cargo transportation and the need for resilient supply chains.

Recent headlines from the B2B payments space, including how Amazon is revamping warehouse policies to prioritize essential goods and how fashion companies are altering their processes to offer medical supplies.

An in-depth examination of how the pandemic is impacting the ways that items are made, sold and paid for.

Information on PYMNTS.com and American Express.

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Companies are struggling to cope with the dramatic changes the COVID-19 pandemic has caused. Business-to-business (B2B) manufacturers and distributors are trying to revise practices so they can meet their retail partners’ intensifying demands for cleaning supplies and groceries, among other necessities, while also anticipating when purchasing patterns will relax so they are not left with excess products.

This careful balancing act is far from the crisis’s only challenge, however. Some businesses have not been able to increase production, and companies reliant on global supply chains are struggling as everything from shuttered factories to air travel restrictions and other transportation issues prevent them from receiving items.

Smaller players have been especially affected, as they often lack financial reserves to fall back on during tougher times. The pandemic is forcing B2B firms to rethink how they work with and pay each other, with at least one major brand deciding to accelerate transfers to its smaller vendors to help them survive the economic downturn. Companies that can collaborate and adapt will be more likely to stay afloat, retain their business partners and come out of the crisis with tighter customer bonds.

AROUND THE B2B PAYMENTS LANDSCAPE AS IMPACTED BY COVID-19

B2B businesses appear to be revising their client management approaches as they work to endure the pandemic. One cleaning supplies distributor that endured other health crises — including the 2009 H1N1 and 2016 Zika outbreaks — reported that emphasizing strong communication with customers was critical to maintaining business during challenging times. The distributor is relying on similar tactics during the COVID-19 pandemic, leveraging expanded call center hours and working closely with customers over the phone to explain purchasing options and considerations.

The supermarket industry is also altering its strategies as consumers ramp up purchasing in response to governments’ stay-at-home orders and social distancing recommendations. Producers are pushing out more goods where possible, with poultry providers opening up stock kept in cold storage and hot dog factories adding hours to produce additional items and meet the new demand. Cleaning product manufacturers are also prioritizing the most in-demand items, such as regular bleach as opposed to scented options, to ensure their supermarket retail partners have the items customers need.

Social distancing guidelines are sparking a greater demand for groceries. Consumers are turning to cooking over dining out and are stocking up on items to avoid frequent trips to supermarkets. These social distancing recommendations are also pushing employees to work from home, and fraudsters are taking note of the new opportunities this presents. Criminals are looking to exploit confusion
during the early days of the remote work transition, sending fake emails claiming to be from executives who demand financial staff to send payments into illegitimate accounts. Businesses that are unable to tamp down on such schemes will see their funds depleted as criminals use this trickery to con employees.

For more on these and other COVID-19–related payments headlines, read the News and Trends section (p. 14).

**THE COVID-19 PANDEMIC’S IMPACT ON LOGISTICS**

The COVID-19 pandemic sent shock waves through global supply chains as factories temporarily went dark, airplanes were grounded and normal transit routes were blocked. Many companies saw their overseas manufacturers cease or reduce production and their normal cargo transportation methods undergo serious disruptions, resulting in delayed shipments, unavailable products and unusual levels of business activity.

COVID-19 has been dominating headlines, but the crisis will eventually pass. Forward-looking companies would thus be wise to learn from the problems they are experiencing during this pandemic to better prepare themselves for the next great global event, according to Brian Reed, vice president of business development and supply chain optimization at global transport and logistics company GEODIS. In a recent interview for this month’s Feature Story (p. 8), Reed explained how the pandemic is impacting cargo transportation and logistics as well as the ways companies can create more resilient supply chains.

**WHY REDEFINING GLOBAL COMMERCE IN A PANDEMIC IS CRUCIAL TO BUSINESS SURVIVAL**

The COVID-19 pandemic is temporarily reshaping how consumers shop and what is available for purchase. Shoppers are showing less interest in unnecessary items and electing to avoid public spaces, and nonessential businesses are closing in many countries to mitigate the virus’s spread. Many individuals are now turning to eCommerce to obtain necessities like groceries or medications and using payment methods that spare them from having to handle cash, which could have come into contact with the virus — a major concern because COVID-19 can live on physical objects for significant periods of time. Such new purchasing habits could remain ingrained even after the virus ceases to be a threat. This month’s Deep Dive (p. 23) examines the myriad ways the pandemic is impacting commerce, from how items are manufactured to how they are found and purchased.
100K
Number of warehouse workers Amazon intends to hire

40%
Portion of retailers expecting the pandemic to cause year-long inventory shortages

75%
Share of supply chain managers experiencing transportation-related issues

572%
Year-over-year increase in downloads for remote working tool WeChat Work

65%
Share of Keqiao, Shaoxing, China-based textile factories reporting canceled orders
The COVID-19 pandemic has interrupted commerce processes ranging from product creation to sales. Countries around the world have temporarily closed factories to enable their employees to stay home and limit the virus’s spread. This has led to reduced inventory production in many sectors, and the resulting shortages have been felt in many industries, including that of medical supplies, which has seen emergency purchasing push demand.

Distributors buying goods from factories that have continued or resumed operations have had their own struggles. B2B resellers may find it difficult to ship items from manufacturers to their international clients because efforts to contain the virus have led to policies restricting air travel and ocean deliveries. A mid-March survey of 600 supply chain managers found that approximately 75 percent of respondents were experiencing transportation issues in their supply chains. Corporate buyers waiting for these goods to arrive are then challenged when serving their customers.

PYMNTS recently caught up with Brian Reed, vice president of business development and supply chain optimization at global transport and logistics company GEODIS, to discuss how the pandemic and efforts to reduce its
spread are impacting global supply chains as well as identify the lessons companies should take from this emergency.

The pandemic's impacts have been widespread, but logistics businesses, their buyers and other companies are doing their best to rally and keep operations running as smoothly as possible.

AIR TRANSPORT COSTS SOAR, OCEAN SHIPMENTS TRICKLE BACK

The pandemic has had significant impact on air cargo transport because the bellies of passenger airplanes are used to store shipments, Reed said. This transit channel has become vastly restricted because countries have imposed travel bans on international flights to prevent infected individuals from spreading the virus across borders. Some consumers are also voluntarily avoiding transit to reduce their chances of exposure.

"Air cargo is ... in a state of chaos," he explained. "Airlines around the world have parked all these jets. All that capacity's gone. You're starting to see it come back a little bit where those passenger planes are starting to be flown as cargo-only, but that's a fairly expensive proposition."

The greater cost of air shipment may discourage nonessential businesses from taking advantage of passenger-turned-cargo planes,
Reed added, but companies providing items that must be delivered swiftly, such as medical supplies, are using such options to maintain their supply chains. These businesses do not have the luxury of turning to slower, cheaper methods of transport because delivery delays could have negative public health impacts.

Ocean carriers are popular, low-cost transportation methods when transporting materials from China, but the pandemic’s emergence in the country greatly impacted maritime shipments. The temporary shuttering of many Chinese factories meant fewer goods were readied for shipment, and quarantine-related roadblocks also made it difficult to transport products from factories to ports. Many cargo carriers saw these unreliable supply chains and deemed it not financially sound to arrive at China’s ports, leaving full containers of goods idle, Reed said. China is currently reviving its factories after enduring the pandemic, which could mark a shift in conditions as more goods can be created and lifted quarantines reduce barriers to domestic transit.

**LAND TRANSPORT KEEPS ON TRUCKING**

Enabling cargo to leave a country and reach international buyers’ shores is only part of the transportation battle. Shipments carried overseas or by air must still be transported to their destinations once they land. Truckers are one major resource transporting these items and those produced domestically. The U.S. has leaned heavily on trucking to move groceries and medical supplies to market during the current rush of demand, and the sectors’ workers have so far largely been spared from infection.

GEODIS has nonetheless sought to maintain social distancing procedures as a precaution and discontinued procedures that require drivers to have documents signed upon delivery, instead having them drop those slips off for later collection. Some even have drivers ask customers to sign digitally and remotely.
DIGITAL SURGE AND RESILIENCE STRATEGIES

Many logistics businesses regarded digital tools like software enabling electronic signatures or shipment location tracking as unnecessary expenses prior to the emergence of social distancing guidelines. The COVID-19 pandemic is now prompting renewed interest and accelerated uptake, Reed explained.

“People before said, ‘Oh it’s kind of a luxury. It’s neat, but I don’t have a business case for it,’” he said. “Well, this is your business case. COVID-19 is showing that some of those technologies have bigger impacts than we thought originally.”

Companies are likely to emerge from the crisis with more digital-savvy operations, Reed added, but that will not be the only major operational change. The pandemic has demonstrated a need to think about supply chains in new ways. Companies cannot simply look at past data to create models on which they can base long-term predictions. They are instead limited to short-term predictions and seeing what they can learn to guide them during future crises.
Key lessons are already emerging, however, including the need to build backup options into supply chains and create flexible business processes. Companies that rely on global partners are proving better equipped to endure pandemic-related disruptions. GEODIS has centers in China, Mexico and Serbia, Reed said, and this decentralization has enabled it to keep some of its locations open while others closed or shifted to remote work.

“If you [do not have] a resilient supply chain that’s flexible and can move around and change geography and change suppliers … you’re just scrambling and don’t have time to predict and you’ll continue to scramble,” he explained. “The people who will be successful in the future are ones who are working now to set that up, who are starting their research and plans.”

Companies should use their current struggles as inspiration to develop broader supplier and provider partner bases that are not tied to select companies or geographies, Reed advised. COVID-19 may have caught businesses flatfooted, but they can start redesigning their approaches now to avoid facing the same problems should another global disturbance arise.

Under The Hood

Are the current global supply chain disruptions prompting companies to consider generating more supply domestically?

“I can’t think of any industry — other than things like refinery — that we just do in America and don’t do overseas. Maybe making toilet paper. We make most of our toilet paper in the U.S. and little overseas. [It’s the same with] bottled water. Those things are already produced in the U.S. at high rates compared to overseas. I don’t see that changing, but we could see [an increase in the number of] people who want [manufacturing to make] a geographic shift back to the U.S. This [pandemic] could spur some of that [interest], but it always comes back to cost. The reason people went overseas was for costs. You’ve got to get the consumer or the demand-driver to agree that having it produced in the U.S. is worth the extra costs compared to the risks of [something like] COVID-19.”

BRIAN REED
vice president of business development and supply chain optimization at GEODIS
Health and hygiene

B2B HEALTHCARE DISTRIBUTORS REVISE PROCESSES IN FACE OF BUYING SPIKE

The COVID-19 pandemic has caused a surge in demand for medical supplies, such as hand sanitizer and face masks, straining the manufacturers and distributors that need to increase their operational capacities. Distributors are working to acquire larger quantities from manufacturers but are still falling short of customers’ needs.

Distributors could redesign their processes to address the swell of medical supply orders, according to Justin Racine, a B2B healthcare eCommerce and marketing professional with an IT consulting background. They could restrict how much or how often customers can make purchases, for example, preventing them from stockpiling items and obstructing access for others in need. Distributors that can offer strong customer support during this time — including fielding calls outside typical business hours and providing rapid item delivery — will stand out from their competitors and deepen client loyalty, Racine claimed. Those that adapt their practices in such ways could be better prepared to stay afloat during economic fluctuations and build stronger buyer relationships that would likely continue even after the global economy stabilizes.

A CUSTOMER SERVICE FOCUS CAN HELP CLEANING SUPPLY DISTRIBUTORS MANAGE HIGH DEMAND

Companies that buy household cleaning items from manufacturers and deliver and sell them to retailers are similarly revising their B2B customer relationship management strategies in light of the pandemic. Distributors of hand sanitizer, cleaning sprays and related items are seeing so many orders that they cannot always stock goods at their warehouses and are instead shipping them directly to their customers. Such accelerated processes can mean inventory is moved without being logged on eCommerce websites, requiring customers to call firms for up-to-date stock information.

One cleaning products distributor recently reported that tactics it had used to ensure clear communication and safeguard customer relationships during the Zika and H1N1 health crises were again proving useful. Such strategies direct customer service teams to shoulder greater demand, working longer hours to handle purchasing calls and ensuring that customers understand all relevant considerations when buying. Business customers must be made aware that they will have to absorb the risk of being left with excess items if demand decreases — items like hand sanitizer cannot be returned after it expires, the company said.
A recent survey of 304 eCommerce executives found that some anticipated COVID-19 to drive sales, however, with 30 percent expecting some increase and 8 percent expecting significant sales growth. Not all are confident that sales will remain in high gear, though, and executives are aware that the pandemic could disrupt countless companies and cut the current flurry of B2B eCommerce spending.

WORLD ASSESS RISK OF PHARMACEUTICAL SUPPLY CHAIN INTERRUPTIONS

Pharmaceutical supply chains run the risk of being particularly disrupted during the pandemic, which has not only created new issues in the sector but also highlighted long-standing vulnerabilities. Drug manufacturing often transcends global boundaries, with raw ingredients collected in one country, transformed into active ingredients in another and then processed into safely consumable forms in a third. Pharmaceuticals depend on complex mixes of materials, too, and the absence of one ingredient could prevent medications from being made.

Nearly half the locations that convert substances into active ingredients for the generic drugs market are located in India and China, according to recent reports, with the latter supplying many of the active ingredients upon which the U.S. depends for antibiotics, heparin, ibuprofen and other medications. This raises concerns about whether China will be able to continue supplying these products without pandemic-related illnesses or containment efforts causing disruption. Some countries are already restricting the global supply chain, with India’s government moving in early March to limit the export of various medicines and ingredients to safeguard its domestic inventory. The country aims to ensure it has enough medical supplies to cope with any potential shortfalls should China become unable to deliver raw materials at normal levels. Many generic drug sellers store several months’ worth of active ingredients, which may have spared many from immediate crisis.
Supply creation and delivery

GROCERY, HYGIENE SUPPLIERS REVISE PRODUCT MIXES, MANUFACTURING STRATEGIES

Production is also an area of concern for grocers, with recent headlines highlighting packed supermarkets and bare shelves. Food industry professionals assert this is due to sharp rises in consumer purchasing rather than pandemic-related supply chain disruptions. Many grocers are adjusting their buying strategies and guiding manufacturers to focus production on top-selling items to meet demand. These factories are in turn switching to round-the-clock operations and may drop less popular items in favor of necessities.

Boosted production can only address the short-term demand for items, however. Meat providers can dig into their stores of frozen chickens and ramp up factory activities to process more hot dogs, but it is not possible to make animals grow faster, limiting how quickly the first stage of meat production can increase. Executives anticipate demand will slacken once consumers feel they have enough to handle staying at home as long as their governments are requiring. Grocers will then need to guide manufacturers on how to adjust to more standard product mixes to avoid producing items that will go unpurchased.

AMAZON SHIFTS FOCUS TO ESSENTIAL PRODUCTS, WORKERS STRIKE CLAIMING UNSAFE CONDITIONS

Some of the largest global companies have been revamping their approaches, with eCommerce giant Amazon revising its policies in early April to prohibit nonhealthcare and nongovernmental shoppers from purchasing medical supplies that are necessary in responding to the pandemic, such as N95 masks. Buyers looking to make such purchases must complete online applications, ensuring that critical products go where they are most needed. The new policy follows earlier moves to prioritize warehouse space for essential items like household and healthcare products. Retailers with nonessential products that were not already en route to Amazon warehouses would not be able to store them there, though merchants could continue selling such items as long as they could both deliver and store them. Some nonessential item sellers objected to the disruption and asserted that they could not afford shipment on their own, while other companies praised Amazon for focusing on necessary products.

Demand for online deliveries are so high that, as of late March, Amazon was planning to hire 100,000 additional workers for its warehouses. Those who work to make eCommerce run smoothly do not all feel that they are being treated humanely, however, with Amazon workers launching two strikes to protest what they deem to be unsafe conditions. Complaints
allege that employees are being urged to work long hours to meet rising demand without sufficient protective supplies. Strikers also want all employees to have paid sick leave and for Amazon to sanitize warehouses where COVID-19 cases have been confirmed. This would require the company to temporarily halt activity at those warehouses, which Amazon claims it regularly cleans. It also stated it will provide sick pay for workers who contract the virus and obtain diagnoses. Workers’ demands have also compelled further changes from Amazon, such as providing partial sick pay to undiagnosed feverish employees, and the company said it is auditing its warehouses’ health measures.

APPAREL, ALCOHOL AND AUTO MANUFACTURERS CONVERT TO MEDICAL PRODUCTS

A variety of companies that have U.S.-based supply chains and create nonessential goods have started shifting their operations to produce essential items instead. This can help overcome national shortages of critical inventory. Some American automakers, including Ford and General Motors, are redesigning their factories to produce ventilators, and vodka distiller Tito’s promised in late March to create alcohol-based hand sanitizer for emergency workers.

Many fashion brands have also begun creating general use, nonmedical face masks that members of the public are being advised to wear. Healthcare workers can wear these over N95 masks, preserving them for future use, and the masks provide valuable protection to those unable to obtain N95 masks or for workers who are public-facing but do not come into close contact with patients. California-based casual wear company American Giant dedicated two of its factories solely to the production of face masks, while brands like Nordstrom and Brooks Brothers have promised to produce sizable quantities of masks for healthcare workers.
Retail and software

20 PERCENT OF RETAILERS TOOK ‘AGGRESSIVE’ PREPARATION RESPONSES IN EARLY MARCH

Consumer-facing sellers were bracing for COVID-19's fallouts in early March, when 47 percent of 300 surveyed retailers anticipated revenue declines following the outbreak. Eighty percent projected impacts on consumer confidence, predicting that consumers would become less interested in shopping as the virus spread. Many governments have since ordered nonessential stores to close, but retailers already believed consumers would voluntarily stay at home to avoid contracting the virus. Some even expected shoppers would want to curtail purchasing to save money for necessities.

Forty-four percent of retailers reported responding to the virus in some way, with 20 percent making “aggressive” changes, according to the research. Businesses sought to shore up their supply chains, as 40 percent expected product shortages throughout 2020. Such concerns spurred 48 percent to report improving communication along their supply chains, while 32 percent were taking actions to reduce supply chain interruptions. Both actions could help businesses continue operations even as the pandemic disrupts the normal production and delivery schedules on which they rely.

CHINA’S ENTERPRISE TECHNOLOGY COMPANIES GAIN NEW PROMINENCE

Many industries are struggling with pandemic-induced challenges, but some could see revenue growth. Video conferencing software and remote workforce technology suppliers are currently gaining new users as workers continue their daily operations from home. Observers assessed the potential impact on China’s B2B software market and noted that well-established companies — not newcomers — will likely benefit because enterprise technologies typically take considerable time and money to create. Startups will thus not be able to rapidly enter the space and take advantage of current demand.

These mobile and remote workforce technology solutions are already seeing massive uptake in the weeks since the COVID-19 pandemic forced many businesses to institute work-from-home operations. Chinese residents reportedly increased their average daily mobile internet usage to 7.3 hours per day in mid-February — up from 6.1 hours per day in January — and Tencent’s WeChat Work remote working tool announced a 572 percent year-over-year increase in downloads that same month.
Shifting payment preferences

VIRUS CONCERNS CREATE CONTACTLESS OPPORTUNITIES

The COVID-19 virus’s ability to linger on physical objects has prompted some consumers and businesses to become wary of exchanging cash, and some consumer-facing merchants have thus revised their point-of-sale (POS) approaches to encourage contactless payments or transactions that enable consumers to swipe their own cards. Low-income consumer advocates warn that this could leave cash-dependent or unbanked consumers out in the cold, however.

Avoiding cash payments is not a cure-all, either. Credit and debit cards are also capable of spreading some sicknesses, with the presence of bacteria — not just COVID-19 — on different payment instruments representing another health consideration. A 2018 study reported that certain illness-causing bacteria, such as salmonella enterica and Escherichia coli (E. coli) were more likely to be found on credit cards than on dollar bills and coins, for example, emphasizing the need for shoppers to wash their hands when handling payments — something that is especially important during a pandemic. Contactless payments reduce the likelihood of bacteria transmission, however, as the cards do not touch cashiers or POS devices.

UK SUPERMARKET CHAIN ACCELERATES SMB SUPPLIER PAYMENTS TO SUPPORT SMALLER PARTNERS

The strain on businesses is prompting changes in how buyers and vendors handle payments. Slow transfers to small to mid-sized business (SMB) suppliers has long been a problem in the United Kingdom, where large corporate buyers often process large vendors’ invoices within three days while forcing small vendors to wait 35 — despite contracts that state smaller payment windows. Estimates suggest that U.K. SMBs spend 56 million hours each year chasing down late payments.
Corporate buyers may be becoming more sensitive to SMBs’ needs as many smaller players struggle to cope with the current economic downturn. Morrisons, the U.K.’s fourth-largest supermarket, is speeding up its compensation methods, announcing plans to accelerate payout timelines to small business suppliers to reduce the SMBs’ likelihood of bankruptcy. It claimed it would provide early compensation to vendors with which it does £1 million ($1.2 million USD) in annual transactions. Such measures could ensure these firms remain in operation and continue to supply the grocer in the future. Morrisons was the only major supermarket in the U.K. to adjust accounts payable practices (AP) to support SMB vendors as of mid-March.

**HIGHRADIUS, FLYWIRE, INGO MONEY ON PAYMENTS IN TIMES OF CRISIS**

Payments platforms are seeing opportunities as consumers and businesses shift away from paper-based payments. Drew Edwards, CEO of instant push payments platform Ingo Money, told PYMNTS that the pandemic could push greater uptake of instant electronic payments. Digital transactions prevent small business owners and consumers from having to handle paper bills and checks and reduce their need to visit banks. Edwards expects to see growing interest in instant payments that can help workers get paid faster, too, which is particularly important during economic uncertainties.

Payment services providers are also examining how to better support their business clients in a time of severe and hard-to-predict global changes. Ryan Frere, executive vice president of global payments for payment platform Flywire, recently told PYMNTS that he believes it is important to offer installment plan options to help companies cope with pandemic-related financial strains while also providing them with access to various methods that may suit their changing needs. Payment platforms that have relationships with multiple domestic banks in each market may be better positioned to weather upcoming fluctuations, Frere added, because they will have backup financial partners to turn to should one bank experience pandemic-related issues that prevent it from clearing transactions.

Companies are also looking to create internal backup strategies, with a recent global survey from AR and treasury management software provider HighRadius finding that several companies are cross-training employees to help ease operations during the pandemic. Organizations are also worried about receiving money they are owed, with the portion of respondents that were “more concerned” about AR being six times higher than the portion that were “less concerned.” Most respondents also said they anticipate economic stabilization to occur within nine months.
Pandemic-fueled B2B fraud

FRAUDSTERS SEE OPPORTUNITY IN REMOTE WORKFORCES’ NEW RELIANCE ON EMAIL

Bad actors are looking to take advantage of companies that have instituted work-from-home policies that push staff to rely on emails. Cybercriminals have ramped up their business email fraud efforts, sending messages claiming to be from company executives or suppliers. These emails request fund transfers, which land money in fraudsters accounts. Financial department employees may be pressured into acting quickly on the pretense that the payments are for high-demand, pandemic-related necessities. This can discourage staff from seeking confirmation or carefully scrutinizing the messages.

Businesses should inform staff about phishing risks and other red flags, like emails requesting they initiate transactions. Emails could justify the requests with any manner of excuses, such as a fraudster claiming to be an employee struggling to log into a payment system. Organizations may adopt other steps, too, such as restricting who can access sensitive files by requiring authorized employees to go through multifactor authentication (MFA), which makes it difficult for fraudsters to steal login data.

FAKE GOVERNMENT, PUBLIC HEALTH EMAILS AND RETAIL WEBSITES EXPLOIT BUSINESSES

Businesses must be on guard against various fraud types that target their operations, including cybercriminals exploiting their efforts to find more information about the pandemic and receive related aid. These hackers posing as public health organizations, such as the Centers for Disease Control and Prevention (CDC) and the World Health Organization (WHO), and send messages that ask for sensitive company information or trick staff into installing computer viruses. Such emails can request tax IDs that can be used to access bank accounts or create synthetic identities, or prompt employees to click links that download malware that can grant fraudsters access to corporate systems and data.

Similar attacks are seen fraudsters pretending to be government officials in charge of handling business loans or other pandemic-related financial support. Companies should advise their employees to avoid giving out sensitive information, accessing provided links or downloading files included in unexpected emails. Criminals are launching fake websites to mimic those of suppliers selling high-demand items, too, hoping to convince employees to enter payment details that can then be stolen. Carefully checking URLs and taking extra precautions when vetting new suppliers can help protect businesses against such schemes.
Reinventing Supply, Demand, And Purchasing In The COVID-19 Era

The COVID-19 pandemic’s impacts are already being felt across various business sectors, and efforts to reduce its spread are sending ripple effects through supply chains and shifting B2B and consumer-to-business (C2B) payment practices. Business buyers are seeking extended payment deadlines from their vendors, retailers are requesting that consumers avoid paying with cash, which can transfer bacteria and viruses, and consumers are increasingly shopping online to avoid crowded stores.

Plenty of systems outside payments are also being affected, resulting in massive in-house strategy shifts. Hospitalizations, deaths, quarantines and social distancing efforts have led to permanent closures, and 25.9 percent of SMB owners expect their companies to fail because of the pandemic. This will significantly impact not just livelihoods but also the number of partners with which companies can work. The COVID-19 pandemic has also forced businesses that are still in operation to rethink how they handle day-to-day functions, with many asking employees to work from home and adopting new digital tools.

This month’s Deep Dive examines the ways the pandemic is impacting how goods are produced, paid for and consumed.

THE PINCH OF INTERRUPTED CHINESE PRODUCTION

Companies dependent on China for products or raw materials have experienced disruptions since the virus emerged, shut down factories and sent workers into quarantine. Such closures have had major global impacts: More than 1 million Amazon merchants rely on Chinese manufacturing, for example.

The virus’s spread has limited corporate buyers’ abilities to readjust their B2B supply chains. There is little certainty that vendors outside China will be spared, as it would take time for alternative suppliers to build up production for new clients — even if they could remain safe from the virus’s impacts. Pandemic-related disruptions in China are likely to impact household goods, textiles and technologies, including semiconductors and telecommunications tools.

The damage to normal supply chain operations have hit smaller buyers with fewer available financial resources hard, but larger companies are seeing problems as well. Technology giant Apple’s main manufacturing partner closed, for example, and the company now expects it will ship 10 percent fewer iPhones in Q1 than previously anticipated.
Automotive companies that rely on Chinese manufacturers to produce their vehicles, plastics and related technologies, such as BMW, Tesla and Volkswagen, have all felt the impacts. Some estimates project a 15 percent decline in China-based car production during Q1, as well as a decrease in consumers’ interest in purchasing the vehicles. U.S. consumers are coping with uncertain incomes — 701,000 jobs were lost in March alone — and many car retailers’ physical operations have shuttered under state orders. Change may be on the horizon, with China having mounted a tentative recovery and reopening of some of its factories in March.

FLOUNDERING GLOBAL DEMAND

The road to global recovery may not be simple, however, because newly revived Chinese factories are being confronted with weakened demand from their traditional clients. Production activities have come online at a time when purchasing has fallen in European markets that are now experiencing the pandemic. Overseas buyers have canceled or suspended orders from Chinese manufacturers or sought payment timeline delays, with some pushing deadlines by two months. Textile factories in the Keqiao, Shaoxing district resumed activity last month, but 65 percent said previously placed orders were canceled and 78 percent
reported a decline in purchasing. Such effects are likely to be long-term, with one economist projecting that China could suffer a 10 percent or greater annual decline in exports.

Other countries are facing similar issues as consumers conserve their financial resources for necessities. Social distancing and the closure of nonessential retailers is also dampening demand. Bangladesh supplies much of the world’s apparel, for example, with such products representing 84 percent of the nation’s exports during fiscal year 2019. Major fashion retailer closures in other countries have so far caused one Bangladeshi trade association to report $3 billion worth of purchases evaporating — all orders were canceled or put on hold until July. The U.S. movie theater industry has seen similar declines, registering a 69 percent year-over-year drop in sales for March 12 through March 19. Some movie studios are therefore revising their approaches to be able to keep selling during this time, offering new releases digitally.

PUBLIC SAFETY MEASURES SPUR eCOMMERCE

eCommerce demand is ramping up, however, with a Feb. 28 study of U.S. internet users finding that 74.6 percent would avoid shopping centers if the COVID-19 outbreak were to “worsen” and that 52.7 percent would avoid brick-and-mortar stores. More than 85 percent of U.S. shopping is typically conducted in stores, and it is thus likely that some kinds of purchasing may disappear while other transactions shift online. Data from mid-March suggested that consumers would increasingly use order-ahead for pickup options to enable shopping while avoiding exposure to infected shoppers and the virus’s presence on items in the retail environment. Companies are also tapping delivery services for all manner of items, including groceries and drug store goods.

Social distancing could produce permanent behavioral shifts among consumers by inspiring eCommerce use among those who had not previously tried it, prompting them to form new shopping habits. Older consumers are particularly vulnerable to COVID-19, and many have not adopted eCommerce purchasing. Being able to receive necessary goods, prepared meals, medications and more delivered safely and conveniently to their homes may convince them to keep up with online and mobile ordering long after the pandemic has run its course.

The rising need for digital services could prompt businesses to change as well. Serving high eCommerce demand could require online retailers to adjust their strategies and move away from two-day delivery promises, for example, or ease purchasing for financially stressed consumers with installment payments.

A DIGITAL PAYMENTS PUSH

Health concerns could impact not only when or how businesses and consumers purchase but also which payment methods they prefer.
Concerns about the virus lingering on physical objects have reportedly prompted some consumers to become wary of exchanging cash and cards between cashiers and their wallets. WHO has recommended contactless payments for this purpose, while South Korea and China are holding all cash from central banks under temporary quarantines to kill any virus before releasing it into circulation. B2B transactions could see similar shifts away from paper checks and invoices, especially as AP and accounts receivable (AR) teams are largely working from home and not in the offices at which they normally handle them.

Weathering this unpredictable pandemic may require businesses to be open to looser payment timelines as well. COVID-19-related complications could cause difficulties for buyers making payments, and suppliers may find it advantageous to give small business partners leeway to help them stay afloat. Payment delays are unlikely to be easy on suppliers, however, as they still need to maintain smooth cash flows to afford their typical production levels. Too many late payments could impede their abilities to deliver on demand.

**RALLYING AROUND NEW NEEDS**

Firms may find long-term planning especially difficult with so much of the world’s economy in flux, yet they must work around this limitation. Doing so could include deploying digital cash management tools to help corporate treasurers quickly respond to hard-to-predict financial and supply chain shifts. Access to real-time data could better equip them to respond, too, should vendors become unable to sell normal quantities of goods or if quarantines significantly disrupt logistics.

Companies readjusting their may take other steps to improve their stability as well, including diversifying their supply chains, handling more production in-house, cross-training staff to ensure employees can take over for those who are sick or quarantined and focusing more heavily on the most-demanded necessities while deprioritizing other items. These measures can ensure companies meet their core needs and have backup plans ready when disruptions hit, better preparing them to keep operations running as smoothly as possible.

The COVID-19 pandemic is causing unprecedented and unpredictable disruptions to global supply chains, commerce and payment norms. Companies will thus need to be flexible and forward-thinking to manage their operations in these difficult times. The challenges are real, but so are the possibilities for learning and improving. Businesses that rally and retool will be much more equipped to handle surprises in the future and will likely exit this crisis stronger and more resilient than before.
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