

The Treasury Management Playbook: Businesses Give Commercial Cards a Fresh Look, a PYMNTS and Citi collaboration, examines the changing role of commercial credit cards in B2B transactions and delves into the trends driving adoption, the cost and value proposition, and their role in the broader B2B payments landscape.



THE TREASURY MANAGEMENT PLAYBOOK

■ **Businesses Give Commercial Cards a Fresh Look**



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WHAT'S AT STAKE

Commercial credit cards have captured just a small share of the business-to-business (B2B) payment market, but their value proposition is rising. For buyers and suppliers, the effective cost of using the cards has dropped in today's higher interest rate environment, and issuers have become more willing to negotiate fees, lowering the barriers to the streamlined reconciliation and real-time monitoring — among other features — the cards can offer.

Despite the promise of commercial cards, they remain a polarizing feature in the B2B payments landscape. Suppliers, for example, widely remain unconvinced when accepting commercial cards for B2B transactions. At the heart of this tension lies a critical difference in views between buyers and suppliers. Will the increasing value of commercial cards tip the scales, or will entrenched supplier reluctance stifle change? The outcome will determine the trajectory of the B2B payments space.

Businesses Give Commercial Cards a Fresh Look, the second edition of The Treasury Management Playbook series, a PYMNTS and Citi collaboration, examines the evolving role of commercial cards in B2B transactions. This report delves into the trends driving adoption, evaluates the cost and value proposition, and investigates their role in the broader B2B payments landscape.

How Lower Costs are Driving Commercial Card Adoption

Commercial cards have historically encountered stiff headwinds in the B2B payments sphere, predominantly due to cost barriers. While buyers celebrated streamlined reconciliation and real-time monitoring, suppliers grappled with hefty processing fees. That is changing, however, for two key reasons: lower effective working-capital costs brought by today's higher interest rates and the growing willingness of card issuers to negotiate fees.

Higher interest rate environments make commercial cards a more attractive B2B payment option for buyers and suppliers. On the buyer's side, a line of credit and the ability to float working capital from statement to statement increases in value as interest rates rise. Commercial cards can provide an immediate and sizable reduction in the need for other financing — and the related interest costs — allowing companies to keep more of their funds in interest-bearing instruments.

For suppliers, the relative cost of accepting commercial cards has also shifted favorably due to higher interest rates. Accounts payable (AP) departments can be notoriously demanding, unreliable and slow to pay. Not only do firms widely force 30- or 45-day net payment terms on their suppliers, many pay even later. Bills, purchase orders and other pieces of the AP puzzle also easily get lost in the shuffle of understaffed teams and personnel turnover. All these inefficiencies mean suppliers provide buyers with free short-term financing — a



less economic proposition when rates are higher. While credit card payments do not erase this problem, they do soften it by making payments easier and faster for buyers, often lowering a supplier's days sales outstanding (DSO).

Commercial card issuers are also increasingly willing to negotiate terms and fees with clients. This change in strategy holds profound significance for suppliers, potentially leveling the cost asymmetry and establishing commercial cards as a more attractive option for B2B transactions. The responsiveness of issuers to the highly competitive economics of receiving payments carries potentially far-reaching implications — and they may position commercial cards as a much stronger contender in the B2B payments arena.

These developments are compelling businesses to rethink their stance on using commercial cards in their B2B payment strategies. As issuers address the cost barrier, commercial cards are poised to gain more ground in the B2B payments market.

The Value Proposition of Commercial Cards for Businesses

Commercial credit cards offer a multifaceted value proposition for businesses. From reducing working capital requirements to boosting security and streamlining both AP and accounts receivable (AR) processes, cards can serve as a potent tool for both buyers and suppliers.

A primary goal of any business is operational efficiency, and commercial cards can bring several advantages over payment methods such as automated clearing house (ACH) payments, wires and checks. Cards help automate payments and simplify accounting processes. When integrated with a firm's existing payments and enterprise resource planning systems, these cards offer real-time visibility of expenses. Compared to legacy payment methods, commercial cards can provide an entirely new level of control.

Take reconciliation — a tedious process that consumes untold hours for AP and AR departments. Commercial cards streamline this pain point with straight-through processing, offering increased transaction insight and control. Each payment is traceable by its unique virtual card number, making reconciliation less time-consuming. Details can even be emailed to suppliers, aiding in their own tracking and reconciliation processes. Additionally, commercial cards can seamlessly integrate with existing AP systems — the same ones used for payments made via the Clearing House Automated Payment System and the Bankers' Automated Clearing System, eliminating the need for significant changes or additional technological investments.

Commercial cards deliver on security, too. Chargeback protection serves as a security blanket, shielding businesses in case of supplier defaults or failures to meet agreed-upon terms. Meanwhile, real-time data feeds help finance teams reduce the risk of financial fraud. Virtual cards and strong encryption further add to the security offerings.

Cards can have a transformative effect on broader procurement processes. Card payments are simple to execute and easy to automate, contrasting with the often slow purchase order process that can waste significant time on both sides of a B2B transaction. For example, managing the otherwise labor-intensive process of ad hoc payments becomes far more efficient with cards because the cards negate the need for exhaustive supplier setup protocols. This feature is particularly beneficial for businesses dealing with one-off and irregular payments.

Critically, commercial cards can reduce working capital requirements, as discussed in the previous section, and improve overall working capital management. For buyers, cards typically provide a period of interest-free credit, helping businesses reduce volatility in cash reserves. On both sides of a B2B transaction, the transparency card payments provide also improves the precision of cash flow planning for CFOs and their teams, particularly when automatic recurring payments and renewals come into play — a detail that can be especially impactful for subscription-based products and services.



Special Use Cases for Commercial Cards

Commercial cards can be game-changers in B2B transactions, given their potential to simplify financial operations, bolster cross-border transactions and enhance regulatory compliance. Besides the broad advantages already discussed, three others merit specific attention: Trust, facilitation of cross-border transactions and regulatory compliance.

Commercial cards can play a crucial role in fostering trust between buyers and suppliers in several ways. For example, an unknown supplier can put new buyers at ease by accepting credit cards rather than insisting on wire or ACH transfers, given the transparency and fraud protection card payments provide — all while enjoying chargeback protection against unethical buyers. The visibility, control and protection that card payments offer can improve satisfaction and trust in business banking relationships. This detail could explain why higher spend per account is linked to better business banking satisfaction.

Navigating the international transaction landscape can be daunting for businesses, even more so when payments involve uncertain international clearance times, varying exchange rates and other fees. Commercial cards enable smoother and quicker international transactions. By minimizing the hurdles typically encountered in cross-border B2B payments, commercial cards open new possibilities for global business relationships.

Regulatory compliance presents a significant challenge in the context of international business and transactions. Here too, commercial cards prove their worth. They can help companies align with regulatory frameworks and ensure compliance for cross-border transactions. This point extends beyond meeting legal requirements — it can give businesses the peace of mind to focus on their core operations without constant worry about regulatory overhead.



DEEP DIVE: HOW VIRTUAL CARDS ARE CHANGING THE GAME

Virtual cards stand out as perhaps the most impactful among the numerous innovative features commercial cards offer. A virtual card is a temporary, tokenized card number that a cardholder can use instead of a permanent card number. Commercial card issuers increasingly offer virtual card features, and third-party providers also offer virtual card functionality as add-on services.

Virtual card technology allows cardholders or corporate account administrators, such as company treasurers, to automatically change or even generate new virtual card numbers for each transaction. This feature revolutionizes both security and control from the perspective of corporate administrators.

On the security front, virtual card technology adds a secure layer between the user and the merchant so that the merchant — not to mention any fraudulent or malicious party — never sees or stores a permanent card number. Cardholders can also easily change or set card numbers to expire after use.

There are other control and monitoring advantages with virtual card technology. For example, administrators can effortlessly issue temporary cards to employees or other parties for specific transactions or limited time frames. This advantage can help eliminate the administrative hassles and compliance risks of issuing permanent cards to company personnel. It also allows credit cards for specific approved transactions when a more cumbersome purchase order process may otherwise be the only option.

Virtual cards are gaining momentum. The technology represents the next evolutionary leap for commercial cards, addressing many existing challenges associated with traditional commercial cards and other B2B payment methods.

Research shows that specific verticals in different regions already lead in virtual card adoption. These include, for example, the construction industry in the U.S., manufacturing in Canada and the professional services industries in the United Kingdom and Australia.¹ If this trend continues, we predict an even greater uptake of virtual cards in the commercial sphere.

¹ Colgan, G. As B2B payments go digital, virtual cards are virtually unmatched. Visa. 2023. <https://visa-business-solutions.foleon.com/vbs/knowledge-hub/as-b2b-payments-go-digital-virtual-cards-are-virtually-unmatched>. Accessed August 2023.

Implementation Guide: Adopting Commercial Cards for B2B Payments



1. Evaluate current processes

Analyze AP and AR systems for inefficiencies and gaps such as extended payment cycles, complicated reconciliation and lack of transaction visibility. Estimate the costs of maintaining the status quo, including labor.



2. Identify use cases

Consider business-specific use cases where commercial cards add value, such as high-volume, one-off payments or cross-border transactions. Ascertain potentially useful features, such as enhanced security or automated reconciliation.



3. Estimate potential long-term costs and savings

Estimate the overall financial impact of implementing commercial cards. This estimation should include the upfront labor and technology costs, the expected labor and time saved through more efficient AP and AR, and the financial impact of improved security, among others.



4. Engage issuers and compare their offerings

Research and compare commercial credit card options, including fees and interest rates, credit limits and key features such as virtual cards. Start conversations with shortlisted issuers to discuss your company's specific needs — and be careful to negotiate fees.



5. Plan and execute the rollout

Implement the selected commercial card solution. Work closely with your card issuer throughout planning and execution, as the issuer will have significant experience and help minimize friction.



6. Monitor outcomes

Post-implementation, continuously monitor key metrics — such as cost savings, supplier acceptance and processing times — for performance and to maximize commercial cards' benefits.

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