

# Why virtual cards give small and midsize businesses an advantage in turbulent economic times



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Facing unprecedented challenges amid the current economic turmoil and uncertainties, many small and midsize businesses (SMBs) are looking for more efficiency and flexibility around business payments—an area traditionally plagued by clunky and constricting processes that lead to unnecessary costs, risk and inconvenience.

The surge in SMB demand for modernized business payment solutions represents a ripe opportunity for payment providers serving the segment, and those that can offer their existing and prospective

SMB clients the tools to modernize and optimize payments stand to reap significant long-term benefits.

Among the most effective such tools are virtual payment cards, which are gaining significant momentum in the business sector and solve many key SMB payment pain points. For program managers—including fintechs, neobanks and other financial services providers—there’s never been a better time to explore offering virtual cards to the SMB segment.

It's never easy to start and expand a successful and long-lasting small business. Indeed, according to the Bureau of Labor Statistics, about 20% of all small businesses close within their first year.<sup>1</sup> As time goes on, the potential for failure rises. Only about 30% of small businesses continue operating for a decade or longer.<sup>2</sup>

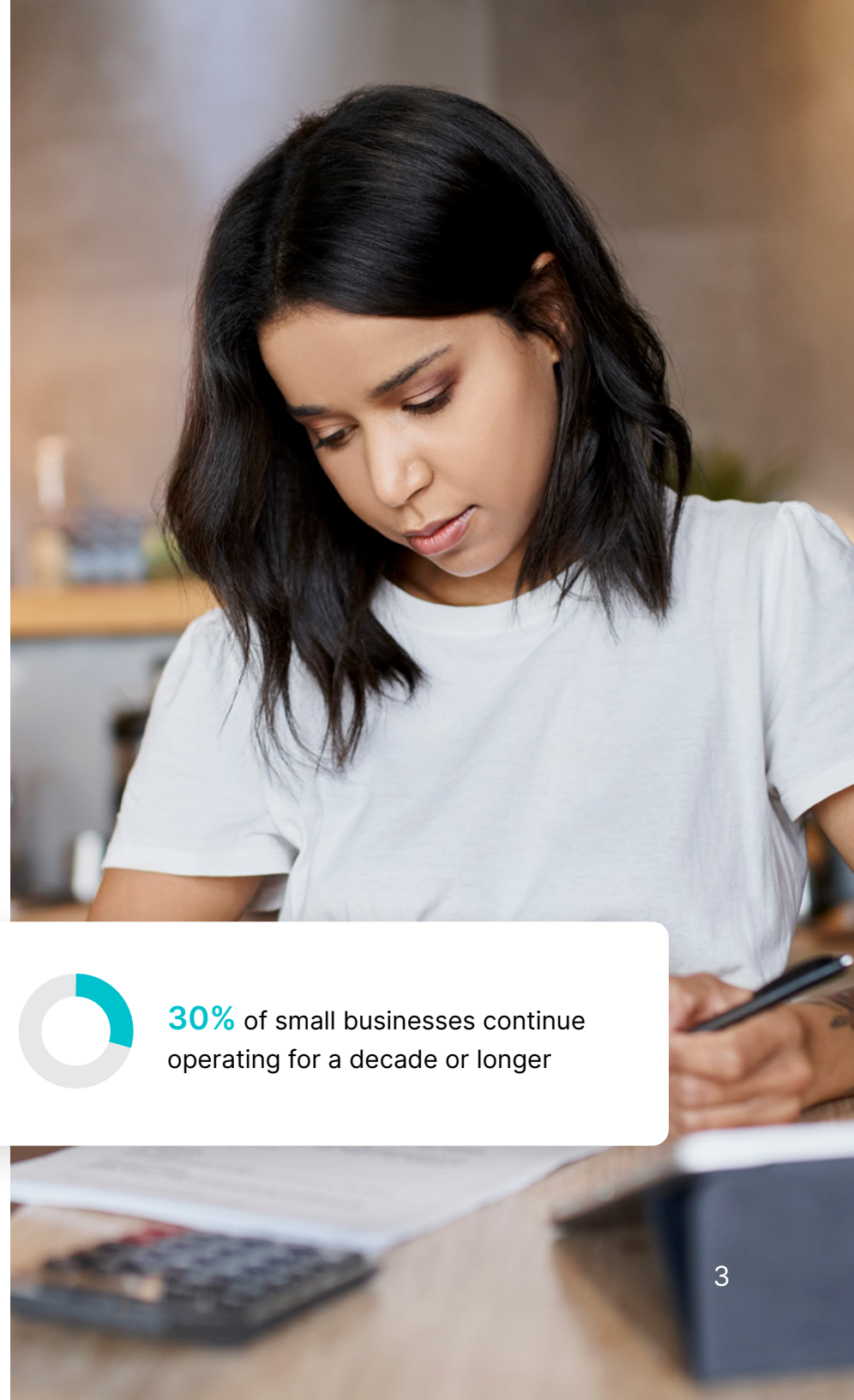
Uncertainties and challenges are an everyday reality for small and midsize business (SMB) owners. But today's business environment is especially confusing. On the one hand, the sharp and steep recession induced by COVID-19 lockdowns has been replaced by robust economic growth and intense demand for everything from restaurant meals and travel to consumer goods. At the same time, though, supply chain constraints and labor shortages triggered by the Great Resignation have challenged SMBs. Stories abound about SMBs that have had to limit their hours because of a lack of employees and products.



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Along with all these challenges, record high inflation and rising concerns about a recession only add to the difficulties SMB owners must navigate.<sup>34</sup> It can all feel overwhelming.

But for SMBs seeking much-needed guidance in this challenging environment, there's plenty of evidence about where they should prioritize their precious time and how they can bolster their prospects for success. According to a U.S. Bank study, 82% of small businesses fail because of cash flow problems.<sup>5</sup>

“How do I ensure my employees are paid? How do I ensure I have enough funds to buy inventory and pay for business travel?” said Prashant Shah, senior director of product management for Galileo, an open API Platform that enables unique and differentiated financial solutions. “All these [issues] come together, and it ultimately boils down to cash flow management. An SMB typically has smaller cash reserves and is often more susceptible to inflation because they can't pass the higher cost of goods on to their customers because their customers are price-sensitive and they want to retain them.”



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**10%** were happy with their bank solutions

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**2/3** still relied on retail bank accounts

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**42%** cited the lack of supplier portals as a pain point in their payment processes

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**15%** say that the lack of third-party platforms that allow SMBs to connect with suppliers and vendors was their most significant frustration

## Existing cash management tools are inefficient, expensive and complex

SMBs are not getting the value they need from existing expense management, accounts payable and other solutions. For example, only 18% of U.S. SMBs polled by fintech consultancy 11:FS “completely agree” that banks provide the services they require to effectively run the financial side of their business.<sup>6</sup> A [report](#) highlighting 2022’s top commercial banking trends by consulting company Accenture noted that fewer than 10% of small-business customers were happy with their bank solutions and that two-thirds of small companies still relied on retail bank accounts.<sup>7</sup>

In addition, according to PYMNTS.com, 42% of companies cited the lack of supplier portals as a pain point in their payment processes; 15% went so far as to say that the lack of these third-party platforms that allow SMBs to connect with suppliers and vendors was their most significant frustration.<sup>8</sup>

It's not hard to see why so many SMBs are unhappy with the status quo solutions for managing cash flow. Even at a time when so many consumer transactions and business processes have been automated and digitized, many accounts payable tasks remain paper-based and manual. For example, 72% of finance teams spend 10 hours each week just processing invoices, matching purchase orders and other accounts payable tasks that could be easily automated.<sup>9</sup>

Besides being tedious and slow, the status quo approach to cash flow management is also expensive. Goldman Sachs reported that paper checks cost \$22 each to process — money and time that SMBs could devote to valuable work, such as acquiring and retaining customers.<sup>10</sup>



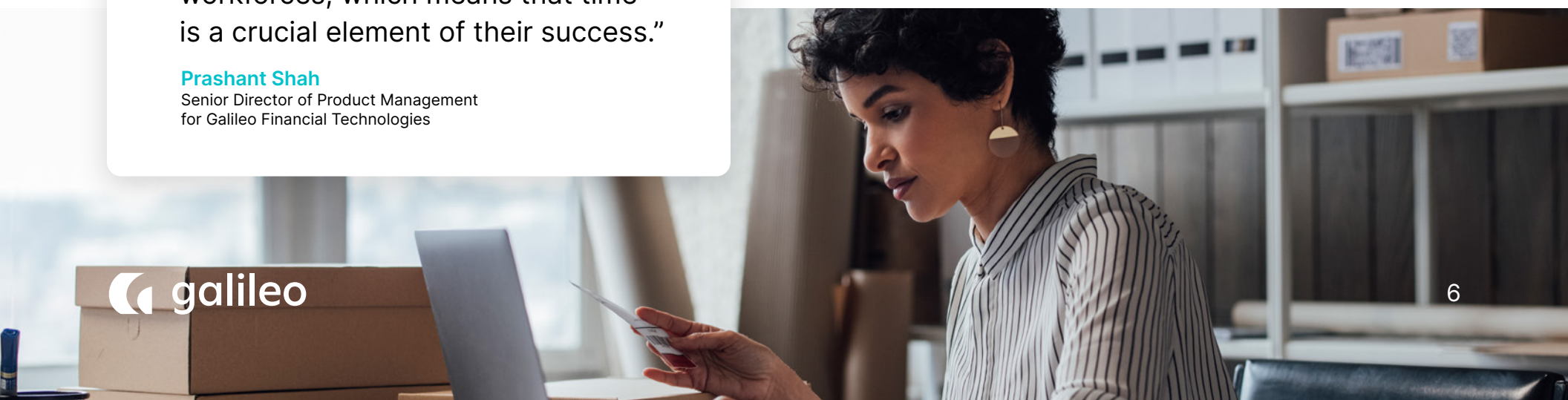
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**Prashant Shah**

Senior Director of Product Management  
for Galileo Financial Technologies

“SMBs typically have much smaller workforces, which means that time is a crucial element of their success,” Shah said. “They need to prioritize and focus their time on promoting and growing their business rather than trying to manage day-to-day interactions with their banks or the employee expense management tool.”

Similar inefficiencies in how banks traditionally engage with SMBs can also cause company owners to tap their personal funds for business purposes. For example, the time it takes financial institutions to disburse funds can force business owners to make up the difference while waiting for the bank to work through its processes. “SMB owners sometimes have to dip into their own personal finances to make up the shortfall,” Shah said. “The banks are generally not thinking from a small-business owner’s perspective. They either are thinking from a consumer aspect or a very large business that has dedicated teams to ensure the banks get the documents they need.”



# Virtual cards provide flexibility, security, control and transparency

Fortunately, SMBs increasingly have more efficient, transparent and secure options to manage cash flow. One way that SMBs can modernize their approach to accounts payable, employee expenses and other payments is through the use of a virtual card. As Shah explained, the way virtual cards function will be both familiar and unique to anybody who already uses credit and debit cards in their work and personal lives. “A virtual card works like a traditional card, you just don’t have the plastic with you,” Shah said. “It still has the 16-digit card number; it can still be used wherever a traditional card is used and on the same network.”

But virtual cards have novel features that make them particularly valuable to SMBs that need real-time visibility into their cash flow. As a start, virtual cards cost far less than actual paper checks and can be generated instantly. The example of expense management helps illustrate how virtual cards can increase working capital and improve cash flow visibility. With virtual cards, SMBs can apply controls that limit how employees use them. These include the capacity to restrict the use of a virtual card to only certain merchant categories — for employees traveling to a conference or visiting a client that could mean permitting only airline and hotel expenses.



SMBs can also cap the total amount that an employee can spend over the course of a day or a week. It's also possible for companies to issue a card for a single purchase only. "These controls help SMBs in multiple ways. First, they give the SMB owner control over what is being spent, how much is being spent and where it is being spent," Shah said. "Second, it helps limit unauthorized use, which helps limit or prevent fraud. That both saves unnecessary time spent fighting fraud and ensures that fraud doesn't tie down valuable capital, which is always a concern because SMBs have limited cash reserves."

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## Real-time knowledge to guide better decisions

The fact that virtual cards provide real-time updates about expenditures instead of historical data from end-of-month reports enables SMB owners to make accurate and up-to-date decisions about how to best deploy capital. “They’re able to manage risks because they now have a full, complete financial picture and know their exposure on a daily basis, not after the fact or after many weeks,” Shah said.

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SMB owners aren't the only ones who benefit from the use of virtual cards to manage expenses. Because virtual cards pre-authorize expenses and provide managers real-time updates about purchases, employees don't have to spend valuable time filling out expense reports for their bosses to review.

Virtual cards offer similar benefits when it comes to supplier payments. Like employee expenses, virtual cards give SMBs control over payments to their suppliers. For instance, an SMB can deploy a single-use virtual card for a specified amount that can only be used to pay a single merchant. The use of a virtual card instead of a paper check or ACH can also earn an SMB cash-back or other card rewards. Because virtual cards enable rapid payments compared with checks and ACH, SMBs may be eligible for rebates from suppliers because they received their money so fast.



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Importantly, an SMB's cash reserves can also benefit from the use of virtual cards to pay suppliers. “The supplier gets the payment immediately while the business owner has roughly 25 days to pay it off,” Shah said. “So they have extended their cash reserves for roughly 25 days and their working capital gets a boost.”

One concern SMBs may have about using virtual cards is the worry that data about transactions will be siloed from existing accounting, accounts payable and expense management systems. This is understandable, given the investments SMBs make in these systems. But APIs allow the data from virtual cards to integrate easily into an SMB's expense management or ERP systems and other expense management systems. This integration creates a single, holistic and real-time view of a company's spending.

“At the time of settle or clearing, details about expenses can be integrated into their accounting, ERP systems. APIs directly pull data into there, and there's no additional effort required,” Shah said. “This allows for integrated reporting where all their spending is in one place and they can make decisions based on the most up-to-date information.”

# A modernized solution for today's business leaders

Much has been written in recent years about how the emergence of digital technologies that provide a high level of personalization and transparency has shaped consumer expectations. Indeed, what consumers expect from all retailers and service providers is fundamentally different than it was before the days of Amazon and Netflix.

Many of today's SMB founders and owners are digital natives, with little patience for the slow pace of financial institution processes and the expense and manual effort required to use paper checks. The efficiency, transparency and security of virtual cards appeal to this younger crop of entrepreneurs and business owners. "They have grown up in this internet world," Shah said. "Data security, efficiency and value of time are all very important to them."

One company that is helping businesses benefit from virtual cards is Mesh Payments, a client of Galileo Financial Technologies. Mesh helps finance teams automate, control and optimize their corporate spend. Providing virtual cards is core to Mesh's success, particularly given workplace changes, and move to remote work, caused by COVID-19.

"These cards offer all the key advantages of virtual cards in B2B use cases, including easy and fast issuance, finer spending controls, and more efficient reconciliation and data tracking," Shah said. "All these things have become even more critical amid the rise of remote work in the post-COVID-19 era, which has decentralized workforces and changed spending patterns, increasing the need for speed, accuracy and transparency when it comes to SMBs enabling and tracking business payments."



Mesh has had so much success with virtual cards that the company recently unveiled a product called Plug & Play, a numberless physical card that can be loaded and link multiple virtual cards. Because it's also a physical card, Plug & Play can be used in brick-and-mortar stores, such as restaurants. Once a virtual number has been used for a defined purpose, a new number can replace it. Spending managers can control the cards as well and have the ability to cancel lost or stolen cards, change PINs or swap in new virtual card numbers whenever necessary.

“Mesh Payments are bringing all the advantages of virtual cards to purchases made in the brick-and-mortar environment,” Shah said. “That’s a very compelling value proposition for companies looking for more efficiency around business spending — something particularly beneficial for growing businesses, who stand to gain valuable financial savings and, perhaps even more important, more precious time to devote to their business.”



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