



PYMNTS

AMERICAN EXPRESS

November/December 2022

# Improving SMBs' Cash Flow Management In 2023

B2B And Digital Payments Tracker® Series

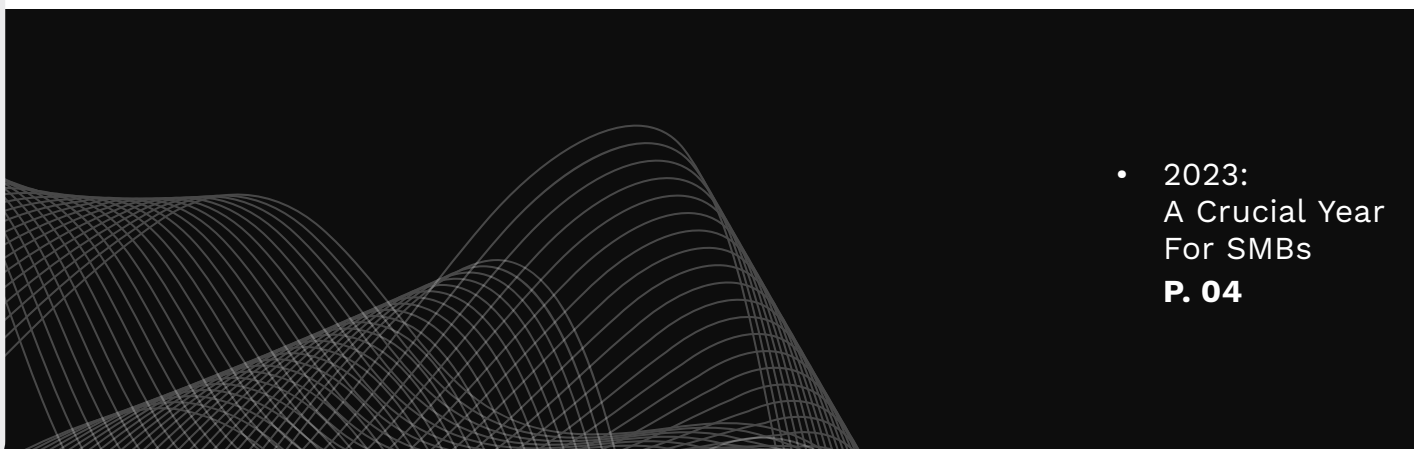
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NOVEMBER 2022

**B2B And Digital Payments Tracker® Series**

- 2023: A Crucial Year For SMBs **P. 04**
- Cost Pressures, Inflation Impede Cash Flow Planning **P. 10**
- Accelerating B2B Payments With Technology, Partnerships **P. 14**
- B2B Payments Are Too Manual **P. 20**





# What's Inside

## 04 2023: A Crucial Year For SMBs

Inflation and late payments are making cash flow management a key to survival for SMBs as they look to stay competitive and invest in new technology.

## 10 Cost Pressures, Inflation Impede Cash Flow Planning

Cash flow planning is even more pressing for SMBs in growth mode and invested in digital transformation, and navigating solutions requires understanding pain points.

## 14 Aligning B2B Payment Priorities With Technology, Partnerships

All-in-one platforms, technology and financial assistance from banks and other payment providers hold great promise for smoothing B2B payment processes.

## 20 B2B Payments Are Too Manual And Inflexible For Many SMBs

The leading problems that SMBs experience with B2B payments all contribute to cash flow difficulties, including the need for manual review.

## 22 An Insider's Checklist For All-In-One Payments Success

Craig O'Neill, CEO at Versapay, explains which all-in-one payments solutions can check the right boxes for companies seeking better cash flow management.

## 26 Digitization Takes Priority For B2B Payments

Banks, payment platforms and credit card networks are bringing new digital solutions to market for SMBs to optimize B2B payments.

## 28 Now Is The Time For SMBs To Prioritize Cash Flow

Cash flow optimization and working capital will push SMBs through rough waters, while digital payment partners and automation can help them stay afloat.

## 30 About

Information on PYMNTS and American Express

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### Acknowledgment

The B2B And Digital Payments Tracker® Series is produced in collaboration with American Express, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

## Need To Know

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# 2023: A Crucial Year For SMBs

Next year could make or break many small to mid-sized businesses (SMBs). Starting with the pandemic and continuing through supply chain disruptions and rapid inflation, the last few years have taken their toll on SMBs. PYMNTS' [Main Street Health](#) survey for Q3 2022 revealed that only 56% of SMBs in the United States expect revenues to increase in 2023, down from 64% last year, and 12% of surveyed firms are concerned they will not last to see 2024.

SMBs are bracing themselves. They are already feeling pain in the United Kingdom, where one [study](#) found that SMBs were owed an average of nearly £150,000 (\$176,000 USD) in 2022, up from £130,000 (\$156,000 USD) in 2020. Cash flow challenges [impact](#) roughly one in four SMBs in the U.K., and 94% of companies surveyed reported at least one month of negative cash flow last year.

**SMBs struggle with cash flow, and there is less optimism than last year about future prospects.**



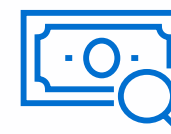
**56%**

of U.S. SMBs [anticipate](#) revenue increases in 2023, a decrease of 13% from last year.



**12%**

of U.S. SMBs are [concerned](#) they will not survive to see 2024.



**94%**

of U.K. SMBs [experienced](#) at least one month of negative cash flow last year.

## Need To Know

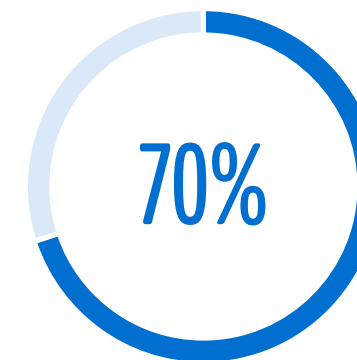
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# Inflation, late payments hampering SMBs' cash flow

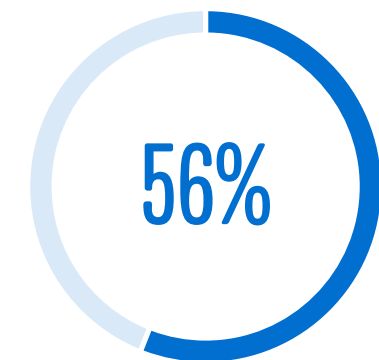
Many factors influencing SMB cash flow have intensified, especially inflation. Nearly four in 10 businesses [surveyed](#) by PYMNTS now cite inflation as their greatest challenge in 2022, compared to just 23% of businesses reporting the same at the beginning of the year. Seven out of 10 businesses reported supplier costs have increased in the last year. On average, product prices rose 11% and business costs were up 12%.

Payments have generally become a source of friction for many SMBs, especially late payments, which smaller companies are more inclined to accept to protect business relationships. According to one [survey](#), almost half of companies in the U.K. believe late payments hindered company growth last year and nearly six in 10 are worried about late payments growing this year. Rising costs and fluctuating revenues mean cash management will be a key to surviving the next 12 months.

**SMB cash flow problems are primarily being triggered by inflation and late payments.**



**of SMBs in the U.S. [report](#) that supplier costs have increased.**



**of SMBs in the U.K. are [concerned](#) about late payments growing this year.**



## Need To Know

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# Use of digital banking and payments services accelerating

It is not all doom and gloom for SMBs, however. Digital banking and payments services are enabling more lightweight, faster and cost-saving solutions to supercharge their SMB customers' cash flow. Top-performing digital banks that serve small businesses in Western Europe have [increased](#) the number of clients onboarded digitally to about 93%, while reducing onboarding times by as much as 85%.

PYMNTS [research](#) found that four out of 10 SMBs are already using all-in-one payment solutions that enable multichannel sales and additional cash management features. A recent [report](#) noted that distributed ledger technology (DLT) has great potential for the 64% of SMBs that believe DLT can complement existing payment networks. With business-to business (B2B) cross-border transactions on the blockchain surging, 56% of U.S. SMBs [see](#) enhanced cash management capabilities as a benefit of cross-border payments innovation.

While small businesses have experienced unprecedented challenges in recent years, these come at a time when there have never been more available solutions within reach.

**41%**  
of U.S. SMBs [use](#)  
an all-in-one  
payments platform.

**64%**  
of U.S. SMBs [believe](#)  
distributed ledger  
technology can  
complement existing  
payment networks.

## News And Trends

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# Cost Pressures, Inflation Impede Cash Flow Planning

In most every direction that SMBs turn, their cash flow is being squeezed. Spreading inflation, rising energy costs and creeping interest rates are the leading factors in the U.K., where a record 89% of small businesses [reported](#) higher costs compared to one year prior. A separate [survey](#) of U.K. SMBs found that cash flow is now getting worse rather than better for more businesses, demonstrating the urgent need for a long-term support strategy.

SMBs are already taking action. They are increasingly [turning](#) to financing, with the number of firms applying for credit rising to 12% in Q2 2022 from a low point of 9% in Q1. One in three mid-sized businesses has [restructured](#) operations and reviewed head count to stabilize cash flow.

## Despite headwinds, many SMBs have sights set on growth

While many brace for a possible recession, a recent [survey](#) found that 83% of SMBs in Canada are optimistic about their growth prospects over the next few years. That optimism is likely a product of surviving the pandemic, with seven in 10 more confident than they were one year ago. Six in 10 are taking proactive steps to weather a recession, with 85% boosting productivity, 83% identifying operational inefficiencies and 82% managing costs by increasing prices.

Digital is an area of focus for SMBs' growth. More than seven in 10 characterize their digital investment as aggressive. Even those expecting to place digital transformation plans on hold in the next six months to prepare for an economic downturn understand that this approach is temporary, with 69% worried they will lose their competitive advantage in doing so.

## News And Trends

# U.S. Small Business Sector Sees Most Cash Flow Fluctuations In Q4

End-of-the-year cash flow will be a priority for many SMBs this year. Seventy-four percent of online retailers and 71% of brick-and-mortar retailers reported Q4 as their most profitable time of year, according to an American Express [survey](#). The survey also revealed that 42% of those businesses report costs increasing as much as 25% in the final three months of the year. The heightened costs are driven by 41% purchasing more inventory, 31% spending more on employees for holiday gifts or parties and 25% increasing their advertising spend.

Cash flow fluctuations are more prevalent in Q4 for many SMBs, when they report the most profits along with increasing costs.

## 74%

Share of online retailers reporting Q4 as their most profitable time of the year



## 71%

Portion of brick-and-mortar retailers reporting Q4 as their most profitable time of the year

## 42%

Share of small businesses reporting costs increasing as much as 25% in Q4




## PYMNTS Intelligence

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# How Technology Can Align SMB Buyers' And Suppliers' Payment Priorities

As the digital transformation of consumer payments continues at a rapid pace, B2B payments often remain mired in legacy systems and manual practices. Small businesses, in particular, need easier payment experiences and help with cash management, but their path to this goal may be fraught with hurdles — not the least of which is an inherent dilemma: While suppliers would rather have immediate access to their funds, buyers look to hold on to their funds longer. PYMNTS [research](#) found that 38% of SMB buyers prefer to pay suppliers via automated clearing house (ACH) or check, but more than half of SMB suppliers would rather receive payments through faster channels, such as real-time payments or same-day ACH.



Buyers' and suppliers' respective pain points [reflect](#) this difference. On average, SMB payors note several problems they regularly experience when making payments, including the need for manual reviews, time-consuming processes and a lack of financing options. SMB suppliers, meanwhile, average different pain points, citing lack of transparency around when they will receive payments, length of the invoice approval process, lack of integration with other systems and the length of time before payment receipt. A single solution, however, could eliminate both sets of challenges.



## PYMNTS Intelligence

# Unlocking the power of all-in-one platforms

All-in-one payments platforms have become a staple for SMBs aiming to simplify management of their financial operations and obtain a fuller view of cash flow. According to PYMNTS [research](#), 59% of SMBs say these tools save time, and 52% say they result in easier cash flow management. Forty-one percent find they simplify receivables tracking, and 32% using the technology have seen improvements in working capital.

For SMB buyers, the efficiency of digitizing the back office is not the only benefit. An all-in-one payments platform [allows](#) businesses to purchase supplies via credit cards — including from suppliers that do not accept card payments. Even if the buyer pays the card fee, the benefits outweigh the costs due to payment term extension from 30 to 100 days of cash float, plus card rewards, early pay discounts and tax deductions. A single platform with customization thus enables both buyers and suppliers to choose the most convenient payment methods for their particular needs.

Many SMBs, however, remain unconvinced. Although 76% of executives surveyed [said](#) that SMBs would benefit from all-in-one platforms, not all SMBs understood these benefits. Fifty-seven percent of SMBs were uninterested in such tools as an alternative to their current setups because they were concerned about complicating their accounts payable (AP) and accounts receivable (AR) processes. Only 18% of SMBs were very or extremely interested in trying an all-in-one payments platform to receive payments, with concerns about complexity and cost of use being the leading impediments.

**All-in-one platforms can bolster cash management, but many small businesses do not [understand how](#).**



**52%**  
of SMBs say all-in-one platforms can help with cash flow management.



**57%**  
of SMBs are uninterested in an all-in-one platform due to concerns about complicating AP and AR processes.

## PYMNTS Intelligence

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# Technical partnerships can boost cash flow management

SMBs can make major cash flow gains by facilitating faster payments. A [report](#) on B2B late payments found that payment within 30 days increases SMBs' cash flow by 66%, while payment within 60 days increases cash flow by only 10%.

To accelerate payments, SMBs are investing in and partnering on new solutions. Another [report](#) found that SMBs are most likely to have invested in technology to support initiatives that help them win new customers and improve financial management. SMBs ranked improving collaboration with external customers, suppliers and partners as providing the best return on investment, illustrating how improvements will not happen in a silo.

A [report](#) on B2B late payments found that SMBs can make major cash flow gains by facilitating faster payments.



**Average increase in SMB cash flow when payments are made within 30 days**



**Average increase in SMB cash flow when payments are made within 60 days**



## Chart Of The Month

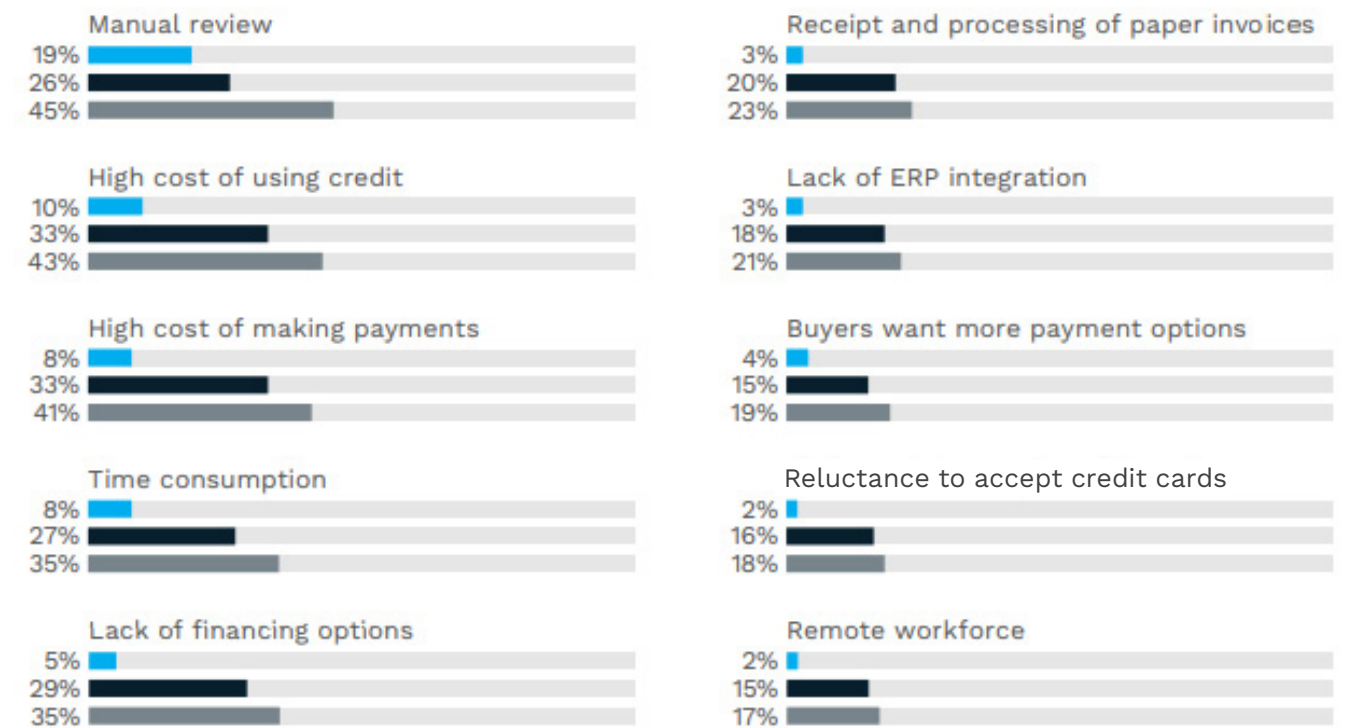
# B2B Payments Are Too Manual And Inflexible For Many SMBs

SMBs struggle with B2B payments, making cash flow management more difficult. PYMNTS [research](#) found that manual review was the leading concern for SMBs when making payments, followed by time consumption, lack of financing options, no single view of cash, no or slow transaction confirmation and receipt and processing of paper invoices.

### Problems SMBs face when making B2B payments

Share of SMBs citing select problems they face in making payments, by level of concern

■ Most concerning  
 ■ Concerning but not the most concerning  
 ■ Total



Source: PYMNTS.com

The AP/AR Quick Start Guide: Reducing B2B Payments Friction for SMBs, August/September 2022

N = 500: Whole sample, fielded Nov. 22, 2021 – Dec. 20, 2021

## Insider POV

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# An Insider's Checklist For All-In-One Payments Success



CRAIG O'NEILL  
CEO

**versapay**®

“The traditional way of doing billing and payment with paper or even emails and checks is simply outdated now. We've seen 10 or 20 years of eCommerce advancement over the course of two years. Small businesses don't want to be emailing an invoice and hoping someone gets it. They're looking to provide an online experience that runs the entire transaction process.”

**PYMNTS interviewed Craig O'Neill, CEO at [Versapay](#), about what companies should look for in an all-in-one payments solution to better manage cash flow.**

**The appeal of all-in-one platforms is well-known, but there is an important distinction to make about what they can do.** Many platforms claim to handle both AP and AR, but few do this in actuality, according to O'Neill. If the platform is not providing end-to-end servicing of transactions, it is not really a comprehensive solution. To make cash flow move quickly, the entire transaction cycle must be addressed, and that happens most efficiently with one integration, as opposed to a patchwork of niche or incomplete solutions.

**Buyers and vendors inherently have different preferences for making and receiving payments, something O'Neill calls the AP/AR disconnect.** They also want each other



## Insider POV

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to win, however. They both seek strong, positive relationships and repeat business. The AP/AR cycle is thus less about aligning opposing forces than it is about removing friction from the process. To get there, both sides need more control, which comes from the visibility that data and artificial intelligence can provide. Increased visibility can also be enabled by using collaborative tools so both sides are empowered to eliminate friction whenever or wherever it occurs.

**Many small companies are completely reliant on one individual for managing AP and AR.** These are the companies that should be most concerned about cash flow, as there are many intricate nuances with different customers that no one else could know about, should that individual leave. That is a fragile situation just waiting to happen, O'Neill noted, and it is a reality for many companies that are just one person away from a cash flow nightmare. Equally problematic are those companies that build up walls of overhead trying to overcome their lack of information on transactions, which typically lead to more delays. SMBs have many competing priorities, and the perception exists that solving cash flow management is too expensive or complex. This climate of higher interest rates is putting pressure on companies to do a more efficient job of managing their working capital.

# 3 Keys To Better Cash Flow



**Avoid siloed cash management.**



**Ensure that AP/AR tools include collaboration.**



**Seek an end-to-end solution covering the entire transaction life cycle.**

## Companies To Watch

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# Digitization Takes Priority For B2B Payments



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EXPRESS

The massive credit card network recently [rolled out](#) its new digital solution, American Express Global Pay, enabling U.S. businesses to make domestic and overseas B2B payments directly from the Amex app. Eligible Amex Small Business Card members can send payments from their business bank accounts to suppliers in more than 40 countries, streamlining and optimizing B2B payments.



Payer®

On a mission to digitize B2B wherever payments are made, Payer announced a [partnership](#) with American Express enabling companies using its B2B digital payments platform to accept American Express cards as a payment method across the Nordics in Denmark, Finland, Norway and Sweden.



## What's Next

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# Now Is The Time For SMBs To Prioritize Cash Flow

## How will economic turbulence impact SMBs the most?

“Now more than ever, cash flow optimization and working capital is of utmost importance to small businesses. Inflation and interest rate changes impact not only their own prices and collecting receivables but also their ability to borrow money.”

## What steps are SMBs taking to protect cash flow?

“They are relying on digital payment partners, optimizing terms with their customers and suppliers and driving efficiencies in their accounts receivable and accounts payable processes. As a result, at American Express we are seeing an increased adoption of digital B2B products in our closed-loop ecosystem — including AP automation tools and AR automation partner integrations.”

**R.J. ANCONA**

Vice president and general manager  
B2B, Global Merchant and Network Services

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# About

## PYMNTS

[PYMNTS](#) 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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